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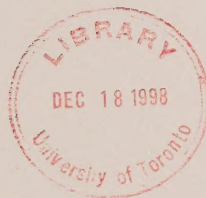


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# 1998 Annual Report of the **Provincial Auditor of Ontario** to the Legislative Assembly







To the Honourable Speaker of the Legislative Assembly

I am pleased to transmit my Annual Report for submission to the Assembly in accordance with the provisions of section 12 of the *Audit Act*.

*Erik Peters*

Erik Peters, FCA  
Provincial Auditor

Fall 1998

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## CHAPTER ONE

# Overview

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## IMPROVING INFORMATION FOR DECISION MAKING

### *GOOD DECISIONS REQUIRE GOOD INFORMATION*

As I have emphasized in previous Annual Reports, having good information for decision making is essential. Appropriate, reliable and timely information enables decision makers to accurately assess the economy, efficiency and effectiveness of government programs and activities. Such information provides a critical base for decision makers to decide whether to continue, discontinue or change government programs and activities, including the use of alternative service delivery or common purpose procurement. Good administration of public funds depends on good decisions based on good information.

Many services paid for by government are being provided by service delivery agents to which government does not have access for information about day-to-day operations. However, since about half of our tax dollars go to these agents in the form of transfer payments, it is vital that the government know the extent to which they are achieving intended results and whether or not the taxpayers are receiving value for money spent. The key to this knowledge is ensuring the availability of appropriate, reliable and timely information.

One of the significant themes of my Annual Report this year, as in past years, is that ministries still require improvements to the quality of the information they receive about the economy and efficiency of the programs and services they deliver. They often lacked adequate procedures for measuring and reporting program effectiveness, especially for those programs funded through transfer payments. These areas offer significant opportunities to improve information for decision making, which would lead to an improved administration of public funds.

In this connection, I continue to advocate amendments to the *Audit Act* that would allow my Office to help provide information to decision makers by performing value for money audits of those service delivery agents that are substantially funded through government transfer payments. The current status of proposed *Audit Act* amendments is described in Chapter Two of this Report.

As well, sound information for decision making by legislators about Ontario Hydro, including information about its future profitability and its stranded debt, is especially needed now that the *Energy Competition Act, 1998* has been proposed to restructure Ontario Hydro and to

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establish the framework for an open, competitive electricity market in Ontario. I look forward to that Act also improving the current accounting and accountability regime for electricity generation, distribution and rate setting in Ontario.

Ontario Hydro's Board of Directors, citing its rate-setting authority under the *Power Corporation Act*, in 1997 recorded \$6.4 billion as expenses although they had not yet been incurred but were planned to be incurred over the next four years. Approximately \$4.9 billion of these future costs related to the nuclear asset optimization plan. Ontario Hydro's recording the \$6.4 billion of future costs in 1997 affects its future operating results, as shown below:

	(\$ Millions)		
	1998	1999	2000
Net income forecast in Ontario Hydro's 1997 Annual Report*	640	750	645
Less future expenses, pre-recorded against 1997 results	(1,765)	(1,810)	(1,540)
Operating loss without pre-recorded future expenses	(1,125)	(1,060)	(895)

\* No net income forecast for 2001 was made by Ontario Hydro in its 1997 Annual Report.

Source: Developed from Ontario Hydro's 1997 Annual Report

Furthermore, Ontario Hydro stated that if it is financially restructured through legislation prior to the year 2001 and ceases to operate as a rate-regulated monopoly, any outstanding provision in the balance sheet for future costs will be factored into the calculation of Ontario Hydro's stranded debt. Stranded debt is defined in Ontario Hydro's 1997 Annual Report as any debt that Ontario Hydro cannot service as a commercial entity in a competitive market.

In its 1996 Annual Report, Ontario Hydro estimated its stranded debt to be \$16 billion for strategic discussion purposes. In its 1997 Annual Report, Ontario Hydro stated that it recognized its existing debt load was too great and it was over-leveraged to compete in a future restructured market, and that it was considered premature to provide an estimate of potentially stranded debt. A revised estimate of potentially stranded debt is expected in the fall of 1998.

Ontario Hydro also advised that the existence of potentially stranded debt did not pose a risk for holders of Ontario Hydro's bonds and notes, because the government will continue to guarantee the \$27.8 billion of existing Ontario Hydro debt, as well as new debt issued prior to commercialization of the successor companies. In 1997, the government concluded that its risk of having to make payments under the guarantee had increased.

Under the restructuring envisaged in the proposed *Energy Competition Act, 1998*, Ontario Hydro's successor companies would likely be included in future, both as to their operating results and their assets and liabilities, in the determination of the government's financial results and position.

A more detailed discussion of these issues is included in Chapter Five of this Report.

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# ACCOUNTING AND FINANCIAL INFORMATION

I am pleased to state that my auditor's report on the financial statements of the province for the year ended March 31, 1998 is clear of any qualifications or reservations.

Both the financial statements and the budget of the province are prepared in accordance with the accounting principles recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants and, where applicable, the *CICA Handbook* for private and public corporations in Canada. Using the same basis of accounting for both sets of accounts allows the Legislative Assembly to more easily compare actual with planned financial performance and results.

Despite this progress, further improvements are still needed. Although summary reconciliations are provided on a PSAAB basis, the estimates continue to be prepared on a modified cash basis of accounting. Legislative spending authority and appropriation controls are not yet converted to the PSAAB basis of accounting. I understand that the government is working toward adopting PSAAB standards for spending authority.

In 1995, the Ontario Financial Review Commission made a number of financial reporting and accounting recommendations. Most have been implemented. Of those that remain, I continue to stress the importance of implementing an integrated government-wide financial information system as soon as possible.

For the third consecutive year, the government issued an annual report which helps legislators and the public better understand and evaluate the province's financial position and activities.

## ACCOUNTABILITY

The government has continued to take steps toward better accountability by implementing most of the recommendations made in 1995 by the Ontario Financial Review Commission. Chapter Two highlights the current status of the Commission's recommendations. Missing from those recommendations that have been implemented, however, are actions to improve the legislative estimates review process. Both the Ontario Financial Review Commission and my Office have recommended improvements to the legislative estimates review process.

Public accountability would be further enhanced if the amendments to the Audit Act, proposed by my Office and endorsed by the Standing Committee on Public Accounts, were enacted. These proposed amendments, if implemented, would permit my Office to carry out value for money audits of organizations that receive transfer payments totalling about \$27 billion of taxpayers' money annually. Chapter Two discusses these amendments and other legislative proposals that have been made to improve accountability.



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# VALUE FOR MONEY AUDIT RECOMMENDATIONS

## *THE AUDITING AND REPORTING PROCESS*

Under section 12 of the *Audit Act*, the Provincial Auditor is required to report annually to the Speaker of the Legislative Assembly.

Because of the size and complexity of the province's operations and administration, it is impossible to audit each program every year. Instead, the Office selects the audits it conducts in a cycle, so that all major programs are considered for coverage every five years. The audits covered by this *Annual Report* were selected by the Office's senior management based on criteria such as financial impact, significance to the Legislative Assembly, public sensitivity and safety, and past audit reports.

We plan, perform and report our value for money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. The application of these standards is described more fully in chapter six of this report.

Before beginning an audit, office staff meet with auditee representatives to discuss the focus of the audit in general terms. During the audit, office staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. After the audit staff conclude their on-site work, a draft report is prepared, reviewed internally and discussed with the auditee. A management response to our recommendations is incorporated into the final draft report. The Provincial Auditor and senior office staff meet with the deputy minister or agency head to discuss the final draft report and to finalize the responses. Those responses are provided with the report sections included in this *Annual Report*.

Immediately prior to the tabling of the Annual Report, separate and simultaneous lockups are arranged for members of the Legislative Assembly and their research staff, representatives of the media, and representatives of audited ministries and agencies. When the lockups conclude, the Provincial Auditor is available to answer questions from media representatives.

Each year, the Standing Committee on Public Accounts selects sections of the Provincial Auditor's Annual Report for review and calls upon representatives of the audited ministries and agencies to attend as witnesses.

## *SUMMARY OF RECOMMENDATIONS*

The following are summaries of the 12 reports on value for money audits contained in chapter three of this *Annual Report* as well as a summary of the special report issued last June on the government's progress in dealing with the Year 2000 issue. The auditees' responses in chapter three indicate that action to implement many of our recommendations is planned or has already been taken.

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### **3.01 Ministry of Community and Social Services**

#### **Business Transformation Project/Common Purpose Procurement**

Common Purpose Procurement (CPP) is a competitive procurement process for selecting private sector partners to work closely with a ministry to identify, design, develop and implement new ways of delivering services.

Traditional procurement methods are suitable for most government acquisitions. The CPP process may be used for both information technology and other complex business projects, but only in defined circumstances, where traditional procurement processes do not work well.

In January 1997, the Ministry entered into a CPP agreement with Andersen Consulting for the development and implementation of the business processes and technologies inherent in the new social assistance delivery system being developed through the Business Transformation Project.

Our audit assessed whether the Ministry had clearly established the appropriateness of the CPP process for its Business Transformation Project and had followed a reasonable and fair competitive selection process in awarding the agreement. We also assessed whether the Ministry had demonstrated due regard for economy and efficiency in the contract terms agreed to and in the administration of the work performed to the end of our field work.

We concluded that the Ministry had not clearly established the appropriateness of the CPP process for the Business Transformation Project and could not demonstrate that it had selected the most cost-effective proposal or that the accepted proposal would result in value for money spent. We also concluded that the Ministry had not demonstrated due regard for economy and efficiency in the contract terms agreed to or in the administration of the work performed for the following reasons:

- It could not provide the basis for its agreement to pay Andersen Consulting a fee of up to \$180 million out of future savings, which may be increased under certain specific conditions.
- Andersen Consulting shares in savings at a disproportionately high rate to the disadvantage of the Ministry, due in part to the fact that the rates charged by Andersen Consulting for its staff time were, on average, almost six times higher than the rates charged by the Ministry for comparable staff.
- The Ministry, without sufficiently evaluating alternatives, included in the CPP agreement an early opportunities initiative for changes to the existing social assistance systems and processes which resulted in payments totalling \$15.5 million to Andersen Consulting to March 31, 1998. These payments were based, in part, on savings which were not clearly attributable to Andersen Consulting and resulted in Andersen Consulting being paid \$13.1 million more than its costs to March 31, 1998, which were charged to this initiative at Andersen Consulting's standard published billing rates.

Accordingly we made recommendations to improve the administration of this and future CPP agreements.

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### **3.02 Ministry of Community and Social Services Ontario Works Program**

The objective of the Ontario Works Program is to provide financial assistance to participating individuals while they become self-sufficient and contributing members of their community by following the shortest route to a paid job. The Program is delivered across the province through 63 municipal delivery agents representing larger municipalities and groupings of smaller municipalities.

The Ontario Works Program's budgeted expenditures for the 1997/98 fiscal year were \$170 million, of which \$62.8 million was actually spent.

Based on our audit of this Program, we concluded that transfer payments approved for municipal delivery agents were reasonably controlled in that they were directly related to the amount of services to be provided. We also concluded that the monitoring and assessment of services provided by municipal delivery agents to Ontario Works Program participants was not sufficiently comprehensive to determine whether these services were meeting the Ministry's expectations. In that regard, we recommended that the Ministry ensure that:

- it can demonstrate that all social assistance recipients required to participate in the Ontario Works Program are in fact registered in the Ontario Works Technology information system or equivalent and have entered into a participation agreement; and
- the administration and effectiveness of the Program is adequately monitored.

### **3.03 Ministry of Education and Training Acquisition and Management of Elementary and Secondary School Facilities**

As of July 1998, Ontario school boards operated 5,100 elementary and secondary schools. These schools had a replacement cost of approximately \$26 billion and cost \$1.3 billion annually to heat, light, clean and maintain. A 1996 study forecast the need for a further 289 schools by 2001 at a cost of \$2.2 billion. In March 1998, the Ministry announced major changes to the way capital and operating costs for Ontario schools will be funded.

We reviewed rather than audited the systems and practices for acquiring and operating school facilities at selected school boards in relation to the Ministry's plans for revising the funding for pupil accommodation expenditures. We concluded that the new funding model is designed to encourage boards to acquire and operate their schools more cost effectively and to publicly demonstrate that they have done so. To help school boards manage their facilities more cost effectively, we recommended that the Ministry:

- establish procedures to verify the capacity of existing schools and promote experimentation by school boards with various semester, scheduling and other options that make better use of existing capacity;
- provide further guidance to boards on the information needed to identify and dispose of surplus schools more expeditiously; and
- assist boards to obtain and implement reliable information systems and better practices for ensuring and demonstrating that the resources devoted to operating and maintaining schools have been well managed.



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### **3.04 Ministry of Finance**

#### **Land Transfer Tax Program**

The *Land Transfer Tax Act* requires that purchasers pay a tax when an interest in ownership of land is transferred in Ontario. The tax is based on the value of consideration paid and is generally paid when the land transfer is registered at one of the land registry offices operated by the Ministry of Consumer and Commercial Relations. For the 1997/98 fiscal year, approximately 345,000 transfers in interest in land were reported, which resulted in the collection of \$544 million in land transfer tax.

Based on our audit of this Program, we concluded that both the Ministry and the land registry offices had adequate procedures in place to ensure that the declared amount of land transfer tax was collected and deposited to the Consolidated Revenue Fund, refunded or exempted based on the value of consideration and other information declared by purchasers.

However, procedures were not sufficient to ensure that declared values of consideration and other information were reasonable, and, therefore, ultimately to ensure that the appropriate amount of tax has been declared and paid. In that regard, we recommended that the Ministry:

- clearly establish and communicate its expectations for land registry office staff in processing land transfer tax transactions;
- periodically provide training to land registry office staff on current land transfer tax issues and ensure that their manuals, informational guides and bulletins are complete and up to date; and
- increase the number of audits currently being conducted and better document the audit procedures applied.

### **3.05 Ministry of Health**

#### **Long-Term Care Community Based Services Activity**

The Long-Term Care Division administers the Long-Term Care Community Based Services Activity. The Activity provides funding for homemaking and professional services for people at home who would otherwise need to go to, or stay longer in, hospitals or long-term care facilities. Funding is also provided to community support service agencies that assist frail elderly people and people with disabilities to live as independently as possible in their own homes. In the 1997/98 fiscal year, the Ministry provided approximately \$1.2 billion in funding for the Activity.

As a result of our audit of the Activity, we concluded that:

- the Ministry did not have adequate procedures in place to measure and report on the effectiveness of the Activity;
- although the Ministry had developed adequate procedures to ensure compliance with applicable legislation and ministry policies, in a number of areas procedures were not being followed; and
- the Ministry has recognized that its procedures have not ensured that resources are used with due regard for economy and efficiency. Accordingly, the Ministry has taken action to decrease funding inequities and has introduced competitive acquisition processes. However, improvements are still needed.

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We recommended that the Ministry:

- measure and report on the relevant performance indicators for Community Care Access Centres;
- develop appropriate procedures and timelines for the inspection of long-term care community service agencies;
- establish adequate procedures for verifying that services paid for were actually provided and authorized; and
- review and update the funding formula to ensure the distribution of funds is fairly and equitably related to service needs.

### **3.06 Ministry of Health Ontario Health Insurance Plan**

The Ontario Health Insurance Plan (OHIP), established under the *Health Insurance Act*, pays at specified rates for insured services provided to residents of Ontario by physicians and other health care providers, commercial laboratories, and diagnostic and therapeutic facilities. OHIP also pays for medical and hospital treatment provided to Ontario residents in other provinces and outside of Canada. In the 1997/98 fiscal year, OHIP paid approximately 134 million claims totalling \$5.1 billion.

As a result of our audit, we concluded that: the Ministry's controls over OHIP claims were not strong enough to be fully effective; procedures in place to assess the effectiveness of the OHIP system were not sufficiently comprehensive; and monitoring of health care provider billings was inadequate for addressing inappropriate payments. We also concluded that the information technology used in processing OHIP claims was managed with due regard for economy and efficiency.

We recommended that the Ministry:

- complete the verification of persons registered prior to 1995 to ensure that services are provided only to eligible individuals;
- strengthen policies and procedures for verifying the authenticity of out-of-country claims to ensure that only valid claims are processed;
- regularly review the use of claims-processing override codes to ensure that only valid claims are paid; and
- implement sanctions permitted under the *Health Insurance Act* to deter misuse of the system by health care providers.

### **3.07 Ministry of Municipal Affairs and Housing and Ontario Housing Corporation/Rent Supplement Programs**

In 1997 the provincial and federal governments provided rent subsidies of over \$131 million to permit eligible households to obtain affordable accommodation in the private sector and in certain federally supported non-profit and cooperative housing projects. Rent supplement units owned by private sector landlords were administered by the Ontario Housing Corporation and its 54 local housing authorities. Rent supplement units in the federally

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supported non-profit and cooperative housing projects were administered by the Ministry of Municipal Affairs and Housing.

Based on our audit of these programs, we concluded that the Ministry and the Ontario Housing Corporation were not in a position to ensure that rent supplement programs are delivered as economically, efficiently and in compliance with requirements as possible. In addition, public reporting on performance was not sufficient.

Given the government's decision to transfer to municipalities funding responsibility for social housing programs, including rent supplement programs, on January 1, 1998 and also to transfer administrative responsibility for the programs by January 1, 2000, our key recommendations to the Ministry and Ontario Housing Corporation were to:

- strengthen local board oversight and reporting responsibilities for the programs because the existing centralized reporting model and the division of responsibilities between Ontario Housing Corporation and the Ministry will not be appropriate once devolution to municipalities has occurred;
- make greater use of income tax information and of the results of investigations involving rent supplement subsidized tenants conducted by the Ministry of Community and Social Services to verify tenant eligibility and subsidy amounts; and
- negotiate with stakeholders the removal of program and agreement restrictions that limit the ability of local housing authorities to save several million dollars.

### **3.08 Ministry of Natural Resources Financial Controls Review**

In administering natural resources programs during the 1997/98 fiscal year, the Ministry spent \$521 million and collected \$448 million in revenues. Expenditures consisted of \$252 million for staff salaries and benefits and \$269 million for other expenditures, which included primarily the purchase of supplies, services and equipment.

We reviewed rather than audited the Ministry's financial controls, systems and procedures to determine whether they were adequate to ensure that expenditures were properly authorized, processed and recorded, and that revenues were properly billed, collected and recorded.

We concluded that there were a number of significant weaknesses in the Ministry's financial controls, systems and procedures. Records had not been properly maintained for the Ministry's accountable advance account, and, as a result, the account had accumulated errors totalling \$1.3 million. Weak controls over payroll permitted employees to be paid when they did not work and to be paid incorrect termination amounts. Also, the Ministry did not have sufficient procedures in place to ensure that the \$126 million it received for water power fees during the 1997/98 fiscal year was all that it was entitled to.

Accordingly, we recommended that the Ministry:

- maintain proper records for its accountable advance account and thoroughly investigate the \$1.3 million in errors to ensure that all payments made through the account over the past five years were appropriate;
- follow up and collect \$800,000 of advances to employees that have not been subject to appropriate collection procedures for several years;



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- implement procedures to improve payroll controls to ensure that employees are only paid what they are entitled to; and
  - establish procedures to bill and collect water power fees in accordance with legislation and legal agreements to ensure the receipt of all the fees it is entitled to.

### **3.09 Ministry of Natural Resources Fish and Wildlife Program**

The Ministry is responsible for the sustainable development of the province's fish and wildlife resources, including the development of the economic activities and communities that depend on these resources. The Fish and Wildlife Program, governed by the *Game and Fish Act*, spent \$72 million during the 1997/98 fiscal year.

Based on our audit, we concluded that the Ministry was not in a position to assess its success in achieving the sustained development of fish and wildlife resources or to identify areas needing corrective action. Sufficient information for making appropriate decisions about the management of the province's fish stocks and big game (moose, deer and bear) was lacking.

We recommended that the Ministry:

- put in place adequate policies for the management of moose, deer and bear populations and base its decisions regarding the sustainability of these populations and the number of hunting tags to be issued on sufficiently complete information on the populations and demographics of these big game species;
- assess fish populations and develop related information to better manage regeneration, stocking and harvesting of fish; and
- review the level of enforcement activity in all areas of the province to determine whether sufficient deterrent patrols are being carried out to prevent illegal activity.

### **3.10 Ministry of Natural Resources Science and Information Resources Division**

The Science and Information Resources Division of the Ministry provides leadership in the development and application of scientific knowledge, information management and information technology for the Ministry's programs and activities. For the 1997/98 fiscal year, the Science and Information Resources Division employed approximately 500 staff, and its expenditures totalled \$63.5 million.

As a result of our audit, we concluded that the Science and Information Resources Division did not ensure that certain program resources were adequately managed with due regard for economy and efficiency, and satisfactory procedures were not in place to measure and report on the effectiveness of the Division's activities. Specifically, we noted:

- The Ministry's overall science needs were not prioritized, and researchers were not required to support their proposals for new projects with objective analysis and input from the Ministry's other divisions.
- Information technology project plans did not include proper business cases to justify the costs of the projects, and systems were not in place to reliably monitor project costs.

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- Contrary to mandatory government policy, consultants were frequently engaged without competition. Competition was also avoided and Management Board of Cabinet's Directives were circumvented by splitting work into a number of smaller, successive assignments.
  - In December 1996, the Ministry entered into a computer lease agreement for \$21 million before determining specifically what computer equipment it required. This resulted in numerous adjustments to the initial contract and an increase in costs totalling \$7 million.
  - The Ministry did not obtain the required approval from the Management Board Secretariat for information technology leases entered into since June 1996 which were valued at approximately \$66 million.

Accordingly, we made recommendations for the Ministry to improve its management of these program resources and the Division's practices and procedures.

### **3.11 Ministry of the Solicitor General and Correctional Services Office of the Fire Marshal**

The primary function of the Office of the Fire Marshal (OFM) is to minimize the loss of life and property from fire by helping municipalities and fire departments improve their fire protection and prevention services. The *Fire Protection and Prevention Act*, which came into force in October 1997, provides the Fire Marshal with the authority to monitor, review and advise municipalities respecting their provision of fire protection services and to make recommendations to municipal councils for improving the efficiency and effectiveness of those services. For the 1997/98 fiscal year, program expenditures were \$23 million, of which 70% was for staffing. The OFM had approximately 220 staff as of March 31, 1998.

On the basis of our audit, we concluded that current effectiveness measures were not sufficiently comprehensive to assess the effectiveness of municipal fire services or OFM programs.

We also concluded that, on an overall basis, the OFM had satisfactory systems and procedures in place to promote compliance with fire safety legislation and efficient and effective municipal fire services. However, improvements were required to deal with *Fire Code* and *Hotel Fire Safety Act* violations identified in over 40% of fire safety inspections.

Accordingly, we recommended that the Ministry:

- develop improved measuring and reporting of the effectiveness of provincial and municipal efforts to minimize the loss of life and property from fire;
- examine, in conjunction with other stakeholders, existing and new options, including stringent enforcement and education, to promote compliance by property owners with fire safety legislation; and
- more actively promote the need for municipalities to periodically prepare master fire plans for the OFM's review to improve municipal fire services and help identify the existence of serious threats to public safety.

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### **3.12 Ministry of the Solicitor General and Correctional Services Ontario Provincial Police**

Under the *Police Services Act*, the Ontario Provincial Police (OPP) is responsible for policing areas of Ontario that do not have their own police agencies. In addition, it is responsible for patrolling traffic on certain highways, maintaining specialized investigative and enforcement capabilities to assist municipal police agencies, and enforcing liquor and other laws as the Solicitor General may direct in serving provincial interests.

The OPP has over 4,750 uniformed officers, some 770 auxiliary members who provide over 160,000 hours of volunteer services, and over 1,400 civilian employees. For the 1997/98 fiscal year, total OPP expenditures amounted to \$541 million, of which \$421 million was for salaries and benefits.

Based on our audit, we concluded that the OPP had yet to fully implement effective community policing initiatives and that significant refinements would be needed to measure the OPP's success in reducing road fatalities and personal injuries.

Also, we found that there was significant mismatching of officer hours worked with calls for OPP service and that hours worked by officers had steadily increased since 1993 despite a relatively stable level of calls for services. In addition, of the 40 municipalities with OPP policing service contracts, 5 had not been billed for OPP services that amounted to \$23 million for three years as of the end of 1997. Five other municipalities had been billed but had not paid for about \$6.6 million of OPP services since 1993.

To better assess the effectiveness of the OPP in serving the community, we recommended that the OPP fully implement the process it has developed for identifying and prioritizing community policing services and develop outcome measures that can be more directly attributed to OPP traffic management services.

To ensure that policing services are delivered with due regard for economy and efficiency, we recommended that the OPP:

- revise staff scheduling practices to better align the deployment of hours worked by officers with the service requirements of the communities involved;
- establish better management controls to ensure that overtime hours are worked only on the basis of clearly justified needs; and
- improve cost-identification of policing services to municipalities and work with the Ministry to ensure effective billing and collection of revenues from such services.

### **Special Report on Year 2000: The Millennium Bug**

Section 12(1) of the *Audit Act* permits the Provincial Auditor to make a special report to the Speaker of the Legislative Assembly at any time on any matter that in the opinion of the Provincial Auditor should not be deferred until the tabling of the Annual Report. In this regard, on June 16, 1998, the Provincial Auditor submitted a special report to the Legislative Assembly on the Year 2000 issue describing the status of the Ontario government's actions to ensure that its computer systems are Year 2000 compliant.

In the report, we urged the government to significantly pick up the pace of its Year 2000 compliance efforts. As at March 31, 1998, six of the 63 mission critical projects were in the

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testing phase, 38 were in the code conversion phase, and 19 projects were still finalizing their assessment and conversion plans.

Although we concurred with mission critical projects being given first priority, we noted that only limited work had been done in assessing the extent of the problems with respect to the thousands of less critical systems, telecommunications equipment, other equipment with date-dependent computer chips, and personal computers and related software. Our research and discussions with other organizations and our consultants indicated that resolving problems in these areas had been unexpectedly time-consuming and difficult.

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## **Erratum**

On page 12, fourth paragraph of section 3.12, second line:  
*for* hours worked *read* overtime hours worked





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## CHAPTER TWO

# Toward Better Accountability

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## 2.01

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### ONTARIO FINANCIAL REVIEW COMMISSION

The Ontario Financial Review Commission was established in the summer of 1995 by the Minister of Finance in order to review the government's financial practices. In November 1995, the Commission presented the Minister with its report, entitled *Beyond the numbers: A new financial management and accountability framework for Ontario*. The report laid out a cycle of planning, reporting, monitoring and evaluating that was aimed at moving the government from a process orientation to a more performance-based orientation.

In its report, the Commission made 55 recommendations covering three main areas: planning, financial reporting and Crown agencies. The Commission agreed with the government's focus on deficit and debt reduction as a major priority and noted that using resources more efficiently would help the government meet its fiscal targets while preserving vital public services.

Three weeks after receiving the Commission's final report, the government announced in the November 1995 *Fiscal and Economic Statement* that it was acting on several recommendations immediately. In the May 1996 *Ontario Budget*, the government provided a detailed response to each of the 55 recommendations. At that time, the government indicated that many recommendations had been implemented, a number were in the process of being implemented and some needed legislative changes for implementation.

Two years have passed since the government last reported on the progress made in implementing the Commission's recommendations. We therefore decided to provide an update on the status of the actions taken on the Commission's 55 recommendations.

Following our request for a status report, in March 1998 we received a joint response from the Deputy Minister of Finance and Secretary of Management Board of Cabinet. This response specified their assessment of the status of each recommendation (implemented, in process or not being implemented) as well as a description of the specific actions taken or planned. We reviewed this response and supporting documentation and had discussions with staff from the Ministry of Finance and Management Board Secretariat. Based on these discussions, we were provided with an updated response to certain of the recommendations on May 15, 1998.

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## STATUS OF RECOMMENDATIONS

At the time of our review, the government had implemented almost two-thirds of the 55 recommendations made by the Commission in its November 1995 report. Fourteen recommendations were in the process of being implemented and these, along with a description of the government action taken or planned, are listed in the appendix at the end of this section. In addition, the appendix identifies the six recommendations that the government had decided not to implement together with its rationale.

The following table indicates the number of recommendations that have been implemented, are in process or are not being implemented.

Status of Recommendations	#	%
Implemented	35	64
In Process	14	25
Not Being Implemented	6	11
	55	100

## HIGHLIGHTS

In the executive summary of its 1995 report, the Commission highlighted its key recommendations. Of these, the government has implemented the following:

- Adopted a prudent planning framework which encourages cautious forecasting and better expenditure planning.
- Disclosed its deficit reduction targets and projected debt levels in its annual Budget and included a contingency fund in the Budget to cushion against unforeseen economic changes.
- Initiated a system of recognition and rewards to motivate effective and efficient behaviour.
- Adopted accounting and reporting standards for the Budget as recommended by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants.
- Established a framework for deciding which type of organization—a ministry, a Crown agency or the private sector—would deliver services most effectively.

On the other hand, there were several key recommendations identified in the Commission's executive summary that the government was still in the process of implementing or had decided not to implement. Those recommendations that were in process related to the implementation of a government-wide financial system, annual business planning and the need for a credible plan to eliminate the Workplace Safety and Insurance Board's unfunded liability. The recommendations that the government had decided not to implement pertained to the timing of the Budget and estimates review process.

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## GOVERNMENT-WIDE FINANCIAL SYSTEM

The Commission recommended that the government adopt one financial management and reporting system to replace the many, largely incompatible systems currently being used by the different ministries. The implementation of an enterprise-wide financial system is also critical to the implementation of three other recommendations (II.1, II.5 and II.12 as noted in the appendix) which require information that cannot be readily produced by the government's current financial systems.

In April 1997, Management Board of Cabinet approved a project to implement a government-wide financial system. Implementation of the system was initially targeted for the end of the 1999/2000 fiscal year. In our *1997 Annual Report*, we indicated that an implementation plan and timetable had been developed, and a new senior position (Assistant Deputy Minister) had been established to provide the appropriate leadership for this challenging project. At that time, the Ministry of Finance advised us that the implementation date was targeted for the 2000/01 fiscal year. Subsequently, in late 1997, the Assistant Deputy Minister (ADM) responsible for the project accepted another position in the government, and a new ADM was appointed.

It is essential that progress be closely monitored and sound information technology project management practices be followed so that this business critical project experiences no further delays and is delivered in a well-controlled manner.

## PREPARATION OF BUSINESS PLANS

The Commission recommended that the government prepare a business plan as part of the annual Budget and that its ministries and agencies prepare annual business plans to cover the upcoming fiscal year and the following two years. The Commission believed that the annual business plan for the government as a whole should set out the government's priorities, outline specific goals for its overall performance, and require measurement of progress toward those goals. It felt that setting goals, explaining how progress would be measured and reporting on the results with the aim of further improvement were all elements of performance measurement.

The government has made considerable progress in this area. Each ministry annually prepares a detailed business plan, a summary of which is tabled in the Legislature, although this requirement has not been legislated as the Commission recommended. However, there was no overall government business plan outlining specific goals and priorities in sufficient detail for ministries to use as the basis for their business planning. Furthermore, no legislative committee had been given the task of reviewing each ministry's business plan, as suggested by the Commission.

## WORKPLACE SAFETY AND INSURANCE BOARD

The Commission recommended that the Workplace Safety and Insurance Board (WSIB, formerly the Workers' Compensation Board) draw up a credible plan to eliminate its existing unfunded liability which amounted to \$11.4 billion at December 31, 1994. The unfunded liability had been reduced to \$8.1 billion at December 31, 1997 as a result of several factors. These factors included the impact of current amendments to the *Workplace Safety and Insurance Act*, high investment returns, reduced claims volumes and low inflation. The WSIB has also developed a proposed new funding plan which is scheduled for review by the WSIB Board and the Minister of Labour this summer.



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## TIMING OF THE BUDGET AND ESTIMATES REVIEW PROCESS

The review of ministry *Expenditure Estimates* by the Standing Committee on Estimates and legislative debate on the government's spending plans takes place well into the year in which the expenditure occurs. Accordingly, the Commission recommended that the government table the Budget before the start of the fiscal year and that it speed up the legislative estimates review process so that ministry spending plans could be reviewed early enough to have meaningful input. The Commission recognized that its recommendations in this area would have implications for the legislative process and, accordingly, recommended the issue be reviewed by a legislative body. These recommendations were consistent with those made in our *1995 Annual Report*.

The government has indicated that it will not be adopting these recommendations. Rather, it will continue with its current practice of tabling the Budget, Estimates and ministry business plans early in the fiscal year after receiving input from the Standing Committee on Finance and Economic Affairs, public consultations and the federal Budget, which is normally tabled in February. As yet, no legislative committee has addressed the Commission's recommendations.

We noted that, with one exception, all Canadian jurisdictions tabled their 1998/99 budgets before the start of the fiscal year. We continue to urge that the recommendations of both the Commission and my Office concerning improvements to the legislative estimates review process be considered by the Standing Committees on Estimates, Finance and Economic Affairs, and Public Accounts.

## CONCLUSION

The government has made good progress to date. Although there is no mandatory requirement to adopt any of the Commission's recommendations, the government has implemented, or is in the process of implementing, almost 90% of them. We acknowledge that a number of the recommendations that are in process are difficult or require more time to implement. Furthermore, two of the six recommendations that the government will not be implementing are no longer applicable due to legislative or other changes.

Notwithstanding the progress made to date, we are particularly concerned about the following issues. Since the one financial system affects several recommendations and is needed to provide better information for government decision makers, we urge the government to ensure this critical government-wide system is implemented on time. Although all other Canadian federal and provincial governments, with one exception, table their budgets before the start of the fiscal year, the Ontario government has decided not to table its Budget before the start of the fiscal year. As well, the government has decided not to initiate a review of the legislative estimates review process, which the Commission noted was ineffective.

# APPENDIX

The first part of the appendix lists the 14 recommendations of the Ontario Finance Review Commission that were in the process of being implemented at May 15, 1998, along with the action taken or planned to address the recommendation. The second part lists the six recommendations that have not been implemented for various reasons.

## PART 1

### RECOMMENDATIONS IN PROCESS OF BEING IMPLEMENTED

2.01

COMMISSION RECOMMENDATION	GOVERNMENT ACTION TAKEN OR PLANNED
<b>I. PLANNING</b>	
<b>A. Framework for Fiscal Planning</b>	
<p>1.2 That government present a three-year business plan as part of its annual Budget. This business plan should:</p> <ul style="list-style-type: none"> <li>• outline goals and priorities in enough detail that ministries can use it as a basis for their business planning, as outlined in Recommendation I.16 below;</li> <li>• explain government's targets for effective and efficient performance and how it will measure progress towards them;</li> <li>• report on progress toward established goals and explain the reasons for changes from its previous plan; and</li> <li>• outline the revenue, expenditures and economic projections for the upcoming year and the following two years.</li> </ul>	<p>The annual Budget reports on the government's progress towards achieving its five-year plan to balance the Budget. It outlines specific fiscal performance measures, a three-year economic projection and a two-year fiscal forecast. It gives interim results for the fiscal year just ended. It also provides a 10-year historical performance comparison of key economic and fiscal data. Ministry business plans identify how their respective three-year plans support the government's action plan. Although the business planning framework is in place, continued refinements will ensure that the process continues to improve its capacity to fully meet the objectives of the OFRC recommendation.</p>
<b>B. Better Fiscal Management and Revenue Forecasting</b>	
<p>1.6 That the Budget contain commentary on socio-economic trends that are likely to have a significant longer-term impact on the Province's fiscal health, and outline measures that may be needed to deal with those.</p>	<p>Although this recommendation refers to the Budget, its intent is that these trends be identified and made public as part of the government planning process. The 1998/99 business plan instructions requested ministries to provide an assessment of risk with respect to the ministry achieving its mandate over the planning horizon. Key cost drivers, which could affect the ministry's major spending and non-tax revenue programs from being delivered on time and within budget, or prevent the ministry from meeting the needs and expectations of clients and partners, are to be identified as an ongoing part of the government planning process.</p>

COMMISSION RECOMMENDATION	GOVERNMENT ACTION TAKEN OR PLANNED
<b>C. Business Plans and Performance Measurement</b>	
<p>I.15 That the government adopt an integrated framework for ministries' activities that better links planning, monitoring, reporting and evaluation to improve the management and accountability processes.</p>	<p>Ministries are now required to submit detailed three-year business plans for review and approval by Management Board of Cabinet. The plans identify the vision, key strategies, policy risks and core businesses of each ministry in the context of meeting the government's overall fiscal plan and operational priorities. The detailed ministry plans may contain proposals, which are advice to Cabinet, or other information considered confidential under the <i>Freedom of Information and Protection of Privacy Act</i>.</p> <p>The public business plans are extracted from the approved ministry business plans. The public business plans have been tabled following the Budget for the last two years, and have been made more accessible through government web-site access and the production of a brochure listing major initiatives from all business plans entitled <i>Making Progress, Managing Change: A Report to Ontario Taxpayers</i>.</p> <p>As it evolves, the new planning framework adopted in Ontario will strengthen linkages between planning, monitoring, reporting and evaluation as performance measures are refined, and the cycle becomes well established so that past performance influences emerging plans.</p>
<p>I.16 That, as part of the framework, each ministry:</p> <ul style="list-style-type: none"> <li>• prepare a three-year business plan that reflects the government's priorities;</li> <li>• maintain the three-year outlook by updating its plan annually before the start of each fiscal year;</li> <li>• specifically address in the plan the measurement of progress toward its stated goals and reasons for changes to its previous plan;</li> <li>• outline in the plan what it believes to be suitable performance measures and targets at the ministry and program level, subject to review by a Legislative committee;</li> <li>• include detailed spending and, if appropriate, revenue plans for the upcoming fiscal year and estimates of these for the following two years;</li> <li>• explain in its plan the delivery structure to be used, including the roles, relationships and accountability of all entities that provide service on behalf of the ministry, and provide justification for this structure; and</li> <li>• provide semi-annual summaries of progress for ongoing monitoring and appropriate action to improve performance.</li> </ul>	<p>The framework described in I.15 is being implemented through ministry activities. All ministries have prepared both internal and public business plans for 1996/97 and 1997/98 and are currently developing the 1998/99 internal business plans.</p> <p>The three-year plans are based on the government's priorities and are updated annually. The internal plans also identify the operating, capital and non-tax revenue resources requirements necessary to achieve their strategic goals.</p> <p>All ministries' business plans establish core businesses, key outcomes and performance measures. The 1998/99 internal business plans will report on ministries' resource requirements by core business for three fiscal years and identify achievements of 1997/98 commitments or provide a rationale for changes to previously published commitments.</p> <p>Both the internal and public business plans contain detailed spending plans for the coming year, applicable revenue forecasts, and directions for the medium term.</p> <p>Ministries continue to engage in consultations to help determine appropriate accountability and performance measures, including specific quantitative indicators.</p> <p>The 1997/98 performance measures were reviewed mid-year by a Committee of Parliamentary Assistants who provided Management Board with recommendations to improve and refine performance measurements for the next business planning cycle. The government's balanced budget plan sets out annual deficit targets to eliminate the deficit by 2000/01.</p>

COMMISSION RECOMMENDATION	GOVERNMENT ACTION TAKEN OR PLANNED
<b>II. FINANCIAL REPORTING AND ACCOUNTING</b>	
<b>A. Accounting Basis and System</b>	
II.1 That government adopt PSAAB standards for the Budget, related spending authority and updates on the fiscal situation.	The government has adopted this recommendation in the Budget and Ontario Finances. The government is working towards adopting this recommendation for spending authority. Significant investment in financial systems and training is required to support the transition to PSAAB standards for spending authority.
II.2 That government adopt one financial management and reporting system for all ministries, in place of the incompatible systems currently in use.	The government has initiated a project to implement one financial system targeted for the 2000/01 fiscal year.
<b>B. Financial Reporting</b>	
II.4 That government's annual report and the Public Accounts be presented no later than 120 days after the year-end, but preferably within 90 days.	The Public Accounts for 1996/97 were tabled in the Legislative Assembly on September 9, 1997. The Ministry of Finance will continue to review means to move up the Public Accounts release within the established target of 90-120 days. The 1995/96 <i>Public Accounts</i> had been tabled on September 30, 1996.
II.5 That government produce quarterly financial statements, on the PSAAB basis, containing for each quarter: <ul style="list-style-type: none"> <li>• an updated fiscal forecast for the year, compared to the Budget plan for the year; and</li> <li>• actual results for the current year to date, compared to year-to-date actual figures for the prior year.</li> </ul> The second quarter should also contain a revised economic forecast for the year and outline its impact on the year's fiscal forecast, and should provide an update of the economic forecast for the next two years.	The quarterly Ontario Finances are prepared on a PSAAB basis and take into account changes in economic conditions which affect revenue projections. The Ontario Finances provide an updated year-end forecast compared to the Budget plan for the year. The reporting of in-year actual results in Ontario Finances is being considered as part of the implementation of one financial system.
<b>Ontario Hydro and Workers' Compensation Board [now Workplace Safety and Insurance Board]</b>	
<i>Ontario Hydro</i> II.6 That government clarify the ownership of Ontario Hydro in order to end confusion in financial reporting.	The government accepts this recommendation in principle and is working with Ontario Hydro on this and other matters impacting the future of the electricity market in Ontario.
<i>Workers' Compensation Board</i> II.7 That government require the Workers' Compensation Board (WCB) to draw up, within the next year, a workable and credible plan to eliminate its existing unfunded liability. This plan should outline specific benchmarks at regular intervals; and the government should monitor the plan's progress to make sure corrective action is taken if it falls short of those benchmarks.	The government is implementing this recommendation. The reforms of the <i>Workplace Safety and Insurance Act</i> , which came into force on January 1, 1998, will ensure that the WSIB's unfunded liability is eliminated by 2014. The unfunded liability at year-end 1997 was \$8.1 billion, down from \$11.4 billion at year-end 1994. The WSIB will soon replace the funding strategy which has been in place since 1984. The proposed funding policy to ensure the unfunded liability's elimination will be reviewed by the Board of Directors and forwarded to the Minister of Labour, as required by Cabinet, in the summer of 1998. The proposed plan will include realistic short-term benchmarks and a periodic formal review procedure to ensure that the plan is monitored and adapted according to experience and future economic/financial projections.



COMMISSION RECOMMENDATION	GOVERNMENT ACTION TAKEN OR PLANNED
<b>C. Accounting Issues</b>	
<b><i>Treatment of Capital Assets</i></b>	
II.12 That government continue its accounting treatment of capital assets, which is generally to expense all spending on assets in the year they are bought or built, and follow those practices in the Budget and quarterly updates until PSAAB standards deal with capital assets. If and when PSAAB standards for capital assets are issued, the government should adopt them.	The government is actively considering the future implementation of the recently approved PSAAB recommendations for tangible capital assets as part of the one financial system project.
<b>III. CROWN AGENCIES</b>	
<b>A. Service Delivery</b>	
III.4 That government set out an accountability framework for all Crown agencies. The framework should require that agencies produce business plans, similar to those recommended for ministries, which set appropriate targets, report on results, and require ongoing monitoring. This framework should incorporate ongoing measurements of costs and benefits of agency status, as discussed in Recommendation III.2 [not included in this appendix].	<p>A review is underway to revise the Corporate Management Directive on agencies. It will ensure that appropriate accountability mechanisms are in place to define expectations of the agency, monitor and report on performance and take performance-based action based on the lessons learned. This new Directive, together with the Corporate Management Directive on accountability, will provide the framework for ongoing assessment of the performance of government-funded entities.</p> <p>The government continues to work on a proposed Public Sector Accountability Act that would require all publicly funded organizations, including agencies, to publicly disclose, in a corporate plan and annual report, information on the objectives of the organization, the plan and resources for carrying out those objectives, and the performance of the organization against the plan. It also would require them to benchmark their activities against the public and private sector to ensure that best practices are followed.</p>
<b>B. Accounting and Accountability for Existing Agencies</b>	
III.8 That, where an agency has both enterprise and service activities, the agency's own reporting clearly differentiate between these activities. Where it also acts as agent for government or other government agencies, the agency's financial statements should give appropriate note disclosure of its activities as an agent.	The Ministry of Finance continues to work with agencies on improving financial statements disclosure in this area. Most agencies now provide additional disclosure in this area.
<b>C. Recommendations Specific to Agencies</b>	
<b><i>Development Corporations of Ontario</i></b>	
III.14 That the various regional agencies of the Ontario Development Corporations be combined and report as one entity.	The Board of Development Corporations of Ontario is reviewing this as part of the wind down of the corporations.

## PART 2

### RECOMMENDATIONS NOT BEING IMPLEMENTED

COMMISSION RECOMMENDATION	GOVERNMENT RATIONALE FOR NOT IMPLEMENTING
<b>I. PLANNING</b>	
<b>B. Better Fiscal Management and Revenue Forecasting</b>	
I.3 That government return to the practice of tabling its Budget, which would now include a business plan, before the start of the fiscal year.	The government will continue with its current practice of tabling the Budget and business plans early in the fiscal year after receiving input from the Standing Committee on Finance and Economic Affairs, and from the public consultations and input from the federal Budget normally tabled in February.
<b>D. Legislative Role</b>	
I.18 That the requirement for business plans, as outlined in this report, at the government, ministry, and agency level, be legislated.	The business planning process implemented by the government in 1996/97 has evolved and matured under a process of continuous improvement. In light of the prominence of the process both for internal government decision making and for public reporting, the concept has been proven and is established. However, the government has not taken any action to date to legislate ministry business plans.
I.19 That government have a review carried out with the goal of ending the current Estimates process, which is ineffective. This review, by either a special task force of the Legislature or an existing committee, should focus on an earlier and more useful debate of spending authority.	We are not aware of any plans by the Legislature or any of its committees to review the Standing Orders of the Legislative Assembly of Ontario which determine the current Estimates process and, in conjunction with specific legislation, govern the establishment of spending authority.
I.20 That the special review [of the Estimates process] consider the following additional suggestions from the Commission: <ul style="list-style-type: none"> <li>• an appropriate committee of the Legislature, which could be a renamed and redefined existing committee, should be given the task of reviewing each ministry business plan before the start of the three-year planning cycle it covers;</li> <li>• the committee should conduct reviews on a three-year rotational cycle (that is, look each year at the plans of one third of ministries), with attention to past and planned outputs and outcomes, and be able to recommend changes to plans;</li> <li>• in looking at each plan, the committee should be able to consult with the appropriate Minister and Deputy Minister, the Provincial Auditor, and others as needed;</li> <li>• the committee should look at the ministry's proposed measures and targets for performance to make sure they are appropriate, well-designed and rigorous;</li> <li>• committee staff should then monitor results on a semi-annual basis, and the committee should be able to require the Minister and/or ministry staff to appear before it as required; and</li> <li>• spending authority should be secured immediately after the tabling of the Budget.</li> </ul>	As noted in the response to I.19, no special review is planned. The existing Standing Orders of the Legislative Assembly of Ontario set out the process for the review of the Estimates by the Standing Committee on Estimates, including the selection of particular ministries for review.  Some of the suggestions for reviewing ministries' plans are currently in practice under the existing Standing Committee on Estimates mandate. For example, committees routinely are able to summon or call members of the Ontario Public Service as required.  In order to further improve the information available to the public and to members of the Legislature, the government has introduced a number of measures including the annual publication and tabling in the Legislature of ministries' business plans; public consultation with client groups, including using a web site to seek the public's views; and the introduction of a summary of business plan commitments in the document <i>Making Progress, Managing Change: A Report to Ontario Taxpayers</i> , which is a compilation of the key themes from the business plans.

COMMISSION RECOMMENDATION	GOVERNMENT RATIONALE FOR NOT IMPLEMENTING
<b>III. CROWN AGENCIES</b>	
<b>C. Recommendations Specific to Agencies</b>	
<b><i>Development Corporations of Ontario</i></b>	
III.13 That, when and if PSAAB adopts its proposed standards on Crown agency reporting, the Development Corporations of Ontario be classified as a service organization.	The government announced plans in 1995 to wind down the Development Corporations. The reporting of operations during the wind down period remains on a consistent basis with prior years.
<b><i>Ontario Clean Water Agency</i></b>	
III.19 That government consider granting OCWA [Ontario Clean Water Agency] more management and administrative flexibility to allow it to operate more competitively.	<p>In 1996, OCWA was restructured to provide the flexibility for it to operate on a more business-like basis. Bill 107, the <i>Water and Sewage Service Improvement Act</i>, provided for a transfer of title to 230 water/wastewater facilities to municipalities. This transfer, which is currently in process, will be complete by Dec 31, 1999. OCWA now has to compete with other providers of operating and maintenance services to municipalities.</p> <p>Financing and building of water/wastewater facilities, and administration of the Municipal Assistance Capital Subsidy Program (MAP), which were formerly undertaken by OCWA, are now being done by the Ministry of the Environment.</p> <p>The Office of Privatization and the Ministry are currently reviewing the options for the future role and mandate of OCWA.</p>

*Sources: OFRC Report, Ministry of Finance and Management Board Secretariat*

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## LEGISLATIVE PROPOSALS TO IMPROVE PUBLIC ACCOUNTABILITY

2.02

# Status of Recommendations for Amendments to the *Audit Act*

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Recent Standing Committees on Public Accounts have expressed their support for the Provincial Auditor's views and concerns regarding the current limitations of the scope of inspection audits of certain grant recipients under the *Audit Act*. In aggregate, provincial monies flowing to grant recipient organizations represent the single most significant fiscal demand on the province's Treasury. In 1997/98, grant recipient organizations received about \$27 billion, which is about 50% of total government expenditures.

Under the current *Audit Act*, the Provincial Auditor may carry out only financial and compliance audits of grant recipients to determine whether the grants were used for the intended purposes. In early 1996, the Committee held public hearings on proposed amendments to the *Audit Act* and invited the deputy ministers of the main transfer payment ministries, representatives of the major transfer payment recipients and other interested organizations to meet and discuss the proposed changes. The primary objective of the proposed amendments is to provide the Provincial Auditor with the discretionary authority to perform value for money audits of organizations, such as community colleges, universities, hospitals, municipalities and school boards, which receive grants from the Province of Ontario or from an agency of the Crown. Other amendments, mainly of an administrative nature, were also proposed.

At the conclusion of the public hearing process on June 13, 1996, the Provincial Auditor submitted to the Committee specific draft proposals for amending the *Audit Act*. After discussion of the proposed amendments, the Committee unanimously adopted the following motion:

*That the proposed amendments be provided to the Minister of Finance and that the Committee requests a response and action plan from the Minister of Finance by the Committee's first meeting following the Summer recess [September 26, 1996].*

In a letter to the Committee Chair dated September 26, 1996, the Minister of Finance responded in part as follows:

*The draft bill to amend the Audit Act as developed by the Provincial Auditor, in consultation with the Office of the Legislative Counsel, represents a significant*



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*step towards the fundamental reform of the public sector accountability system and I agree with the principles upon which it is based.*

*I concur with the proposed amendments dealing with the administrative changes to modernize the Act and to have the Auditor express an opinion as to whether the province's financial statements are presented fairly in accordance with the accounting principles which the Canadian Institute of Chartered Accountants has recommended for governments. This requirement is consistent with the direction taken by the government in response to the recommendations of the Ontario Financial Review Commission.*

*With respect to the amendments affecting the auditing of transfer payment recipients, it should be noted that a number of initiatives are underway, including the Who Does What discussions, which may result in a significant restructuring of the nature and magnitude of the province's transfer payment arrangements. It may be more appropriate to assess needed changes to the auditing of transfer payments following this restructuring.*

The Provincial Auditor met with the Minister of Finance on October 2, 1996 to discuss this subject and the timeframe for introducing a bill to amend the *Audit Act*, given the possible restructuring in the transfer payment area as a result of the "Who Does What" discussions. In this regard, it was the Minister's preference to await the outcome of the transfer payment restructuring exercise, which he expected to be substantially completed by the fall of 1997, before considering possible amendments to the *Audit Act*.

## **INTRODUCTION OF PRIVATE MEMBER'S BILLS TO AMEND THE AUDIT ACT**

- On June 12, 1996, Bernard Grandmaître, MPP for Ottawa East, introduced Bill 74 entitled *An Act to amend the Audit Act*.

The purpose of the Bill was to allow the Provincial Auditor to present the Speaker of the Legislature with up to three reports a year, in addition to the Auditor's *Annual Report*. The Provincial Auditor would retain the power to submit special reports to the Speaker whenever the Auditor believes that a matter is urgent.

On March 6, 1997, this Bill passed second reading and was referred to the Standing Committee on Public Accounts for its consideration.

On November 20, 1997, the Committee considered the Bill, clause by clause, and reported it to the House without amendment. The Speaker then ordered the Bill for third reading.

The Bill was not called for third reading before the prorogation of the First Session of the Thirty-sixth Parliament and consequently "died."

- On November 5, 1996, Bart Maves, MPP for Niagara Falls, introduced Bill 89 entitled *An Act to amend the Audit Act to improve the accountability of hospitals, school boards, universities and colleges, municipalities and other organizations which receive payments from the government*.

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The purpose of the Bill was to permit the Provincial Auditor to conduct value for money audits of organizations, corporations, associations, foundations, institutions and other bodies that receive transfer payments, directly or indirectly, from the Consolidated Revenue Fund or government agencies.

On November 21, 1996, this Bill passed second reading and was referred to the Standing Committee on General Government for further review.

The Committee did not consider the Bill and it, too, “died” because of the prorogation of the First Session of the Thirty-sixth Parliament.

## THE PROPOSED PUBLIC SECTOR ACCOUNTABILITY ACT

- In our *1997 Annual Report*, we included the following update on the status of the proposed *Public Sector Accountability Act* (PSAA) as it was provided to us by Management Board Secretariat in a letter dated July 3, 1997.

*The 1997 Ontario Budget proposed the Public Sector Accountability Act to ensure that each publicly-funded organization prepares a specific business plan and that these plans are made available to the Legislature and the public. The Act will require these organizations to report on their financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The Act will also require these organizations to prepare a corporate plan and annual report which details objectives, resources required and performance against the plan. Benchmarks, against both private and public sector practices, will also be required.*

At that time, we were also informed that the Minister of Finance would be introducing the PSAA during the Legislature’s 1997 fall session. However, by the summer of 1998, the proposed PSAA had not been introduced in the Legislature for first reading.

## CONCLUSION

In his September 26, 1996 letter to the Standing Committee on Public Accounts, the Minister of Finance stated that the draft bill to amend the *Audit Act* represented “a significant step towards the fundamental reform of the public sector accountability system and I agree with the principles upon which it is based.”

Additionally, the *1997 Ontario Budget* specifically referred to Bill 89 introduced by Mr. Maves as being important in the development of a *Public Sector Accountability Act*. The main thrust of Mr. Maves’ proposed legislation was to enhance accountability by providing the Provincial Auditor with access to the information necessary to carry out discretionary value for money audits of grant recipient organizations that, in total, account for about 50% of provincial expenditures (\$27 billion in the year ended March 31, 1998). However, the draft PSAA proposals that have been shared with this Office did not contain any reference to the thrust of Mr. Maves’ Bill 89.

The Provincial Auditor continues to be a strong advocate of any legislation that enhances public accountability.

The Provincial Auditor also believes that the proposed *Audit Act* amendments are directly related to enhancing public sector accountability. Now that the government’s restructuring

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exercise has been substantially completed, we urge the government to consider our proposed amendments to the *Audit Act*.

We also look forward to the Minister of Finance proceeding with the public sector accountability enhancements inherent in the proposed *Public Sector Accountability Act*.

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## CHAPTER THREE



# Reports on Value for Money Audits and Reviews

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# **Business Transformation Project/Common Purpose Procurement**

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## **3.01**

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Historically, the Ministry of Community and Social Services has provided social assistance to needy individuals under one of two programs:

- The Provincial Allowances and Benefits program (commonly referred to as Family Benefits) provided financial assistance for prolonged periods of time primarily to individuals in need and considered permanently unemployable as a result of a physical or mental disability, or sole support parents with dependent children. In the 1997/98 fiscal year, the Ministry's Family Benefits program provided benefits totalling \$2.9 billion to approximately 314,000 recipients. The program was delivered by approximately 850 caseworkers and additional support staff working out of 93 local offices that report to 12 area offices.
- The Municipal Allowances and Benefits program (commonly referred to as General Welfare Assistance) provided short-term financial assistance to allow for a basic standard of living for individuals unable to provide for themselves. In the 1997/98 fiscal year, the program provided benefits having a total value of \$1.9 billion to about 270,000 recipients. The program was delivered by 350 municipalities and First Nations and is approximately 80% funded by the Ministry.

The Ministry has replaced these programs with the Ontario Works program and the Ontario Disability Support Program, which operate under new legislation. Ontario Works integrates employment and financial assistance for all employable recipients, including single parents. The current provincial/municipal delivery system will be replaced with a single-tier, streamlined system at the municipal level for Ontario Works recipients.

The Ontario Disability Support Program replaces Family Benefits payments with an income and employment support plan that better meets the needs of people with disabilities. The administration of this program will remain with the Ministry.

The Family Benefits and General Welfare Assistance programs were supported by two large, centralized computer systems, the Comprehensive Income Maintenance System (CIMS) and the Municipal Assistance Information Network (MAIN), which maintain recipient information and process payments. These systems are operated by the Ministry and are updated daily with batches of information entered in the local offices.

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Both computer systems were developed in the late 1970s and early 1980s to facilitate payment processing and, consequently, are limited in their flexibility and the functions they can perform. In addition, the systems have reached their practical capacity and are unable to accommodate many of the changes necessary to improve program delivery or administrative effectiveness.

In 1994, the Ministry initiated work on Caseworker Technology, which was expected to be a two-phase project, initially to automate the collection and file maintenance of recipient information for both ministry and municipal social assistance offices and, ultimately, to replace CIMS and MAIN. The project had a total budget of \$171 million and was to be completed over the next four years. Much of the work necessary to implement the first phase of Caseworker Technology—the automation of data collection and file maintenance—was awarded to a private sector contractor through a competitive selection process.

The first phase of the Caseworker Technology project was amended to include a component known as Ontario Works Technology for monitoring and reporting on the employment initiatives of individual social assistance recipients. This part of the project commenced in 1996 and is to be fully implemented in 1998/99. By early 1998, Ontario Works Technology had been implemented in 162 ministry offices and municipal sites.

As of March 31, 1998, phase one of Caseworker Technology had been implemented in 64 provincial offices and 136 municipal sites, and approximately \$145 million in project expenditures had been incurred.

In 1995/96, the Ministry initiated another project called the Business Transformation Project. The main objective of the Business Transformation Project is to develop new business processes and technologies to support the transformation of the Family Benefit and General Welfare Assistance programs into the Ontario Works program and Ontario Disability Support Program. The Business Transformation Project is intended to provide technologies for single-tier delivery of the new social assistance and employment initiatives and to replace the interim computer systems of Caseworker Technology and Ontario Works Technology, as well as the outdated CIMS and MAIN computer systems.

On January 27, 1997, the Ministry entered into a Common Purpose Procurement (CPP) agreement with Andersen Consulting for the development and implementation of the business processes and technologies inherent in the new social assistance system that is to be put in place through the Business Transformation Project. The agreement between the Ministry and Andersen Consulting was the first large Government of Ontario project to use CPP principles. Under CPP, a private sector vendor is selected to work closely with the Ministry to identify, design, develop and implement new ways of delivering services and, in so doing, share the investment in and risks and rewards of the project.

In November 1995, the Management Board of Cabinet issued a directive and accompanying guidelines for CPP. In contrast to the traditional procurement process, in which vendor selection is based primarily on price or lowest evaluated cost, the CPP process bases vendor selection on qualitative factors such as proven experience, expertise, project approach and management strength, as well as other factors such as financial stability and capacity, and financial and partnership arrangements for sharing risks, investments and benefits.

The Provincial Auditor's previous value for money audit reports on the Family Benefits and General Welfare Assistance programs have consistently identified significant deficiencies in the administration of these programs. The Ministry has also recognized for some time that

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improvements are needed in the business processes and technologies used to administer its social assistance programs. The Ministry's current, ambitious Business Transformation Project initiative, the primary objective of which is to design and implement a new way of administering social assistance, is intended to result in many of these needed improvements.

## OBJECTIVES AND SCOPE

Our audit objectives were to assess whether:

- the Ministry had clearly established the appropriateness of the CPP process for its Business Transformation Project and had followed a reasonable and fair competitive selection process in awarding the agreement to Andersen Consulting; and
- the Ministry had demonstrated due regard for economy and efficiency in the contract terms agreed to and in the administration of the work performed to the end of our audit field work in February 1998.

The scope of our audit included discussions with selected ministry and Andersen Consulting staff as well as a review of all relevant and available information and documentation provided to us by the end of our field work in March 1998. To the extent considered necessary, we also held discussions with, and obtained information from, staff of other provinces and the federal government which had entered into similar agreements with Andersen Consulting and other consulting firms.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We did not rely on the work of the Ministry's Comprehensive Audit and Investigations Branch to reduce the extent of our audit work because the Branch had not reviewed or issued a report on either the Business Transformation Project or Common Purpose Procurement.

## OVERALL AUDIT CONCLUSIONS

We concluded that the Ministry had not clearly established the appropriateness of the CPP process for the Business Transformation Project for the following reasons:

- The Ministry had not sufficiently defined or established the project's scope and desired business results during the project's research and planning phase.
- The Ministry could not demonstrate that it had adequately considered either other contracting arrangements or maximizing the use of its own internal resources for any aspects of this project.
- Since the Ministry had not adequately established the desired business results, it could not ensure that such results would be sufficiently measurable to decisively determine or agree on progress toward achieving them.



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We concluded that the Ministry had followed CPP principles in selecting Andersen Consulting as the successful vendor; however, in doing so, it could not demonstrate that it had selected the most cost-effective proposal or that the accepted proposal would result in value for money spent because:

- unlike the traditional procurement process which would be appropriate in most instances, the Management Board of Cabinet Directive and guidelines for CPP do not require that selections chiefly be based on price or lowest evaluated cost, or that bidders as part of the selection process propose specific changes to existing business processes and technologies or describe the nature and extent of the work to be performed; and
- the Ministry did not demonstrate the cost/benefit implications and overall value to itself of each proposal.

We concluded that the Ministry had not demonstrated due regard for economy and efficiency in the contract terms agreed to or in the administration of the work performed to February 1998 for the following reasons:

- It could not provide the basis for its agreement to pay Andersen Consulting a fee of up to \$180 million out of future savings. We noted that the \$180 million significantly exceeded the vendor's preliminary cost estimate provided during the competitive selection process. The vendor indicated that the preliminary cost estimate of \$50 million to \$70 million would be affected by variables such as complexity and the extent of the transformation. Also, the \$180 million maximum may be increased under certain specific conditions, subject to ministry approval.

In addition, the Ministry agreed to reimburse Andersen Consulting from project savings for certain project costs which will be in addition to Andersen Consulting's maximum fee of \$180 million. Thus, if payments to Andersen for its fees ultimately do reach \$180 million, this provision will have the effect of increasing the maximum payment by the amount of these costs. However, although these project costs may be substantial, the Ministry had not estimated their total amount or defined the circumstances under which some of them may be incurred.

- Andersen Consulting shares in savings at a disproportionately high rate to the disadvantage of the Ministry because:

- the CPP agreement allows Andersen Consulting to charge standard published billing rates for this project, which were, on average, almost six times higher than the rates charged by the Ministry for comparable staff.

Also, when Andersen Consulting increases its standard published billing rates, it can unilaterally charge the higher rates to the project without ministry approval. We noted that, at the time of our audit, Andersen Consulting's rates exceeded the rates quoted in its response to the Ministry's December 1995 request for proposal by an average of 63%.

- The Ministry did not charge all of its eligible costs to project expenditures for future recovery from savings.

- The Ministry did not ensure that Andersen Consulting provided the required receipts for the majority of its \$1.4 million out-of-pocket expenses. We noted that Andersen Consulting charges for out-of-pocket expenses averaged approximately \$26,000 for each full-time-equivalent position assigned to the project during the first year.
- The Ministry, without sufficiently evaluating alternatives, included in the CPP agreement an early opportunities initiative for changes to the existing social assistance systems and processes that resulted in payments of \$10.3 million to Andersen Consulting to December 31, 1997 (\$15.5 million to March 31, 1998); these payments were based, in part, on savings which were not clearly attributable to Andersen Consulting and resulted in Andersen Consulting being paid \$13.1 million more than its costs to March 31, 1998 for this initiative at its standard published billing rates.
- At the time of our audit, the project had fallen significantly behind the agreement's original, preliminary timetable (referred to in the agreement as "high level critical path") and the revised timetable agreed to in July 1997.

## OTHER MATTER

A Quality Council was established to provide independent oversight to the project. We found that this Council had no representation from the Ministry but did have an Andersen Consulting partner as a member which, in our view, could be perceived as a conflict of interest.

### **Overall Ministry Response**

*The need for reform in Ontario's vast and highly complex social assistance system has been highlighted by various external and internal audit reports. The first steps in the reform of social assistance included the proclamation of the Ontario Works and Ontario Disability Support Program legislation and the integration of the sole support parent caseload with municipal service deliverers. Further reforms to the social assistance system require changes in business processes and technology.*

*In 1995, the Ministry was chosen to be a pilot for Common Purpose Procurement (CPP), an innovative approach to public/private sector partnership. As the Provincial Auditor has indicated, CPP is unlike the traditional procurement process.*

*The development of a new social assistance delivery system, which included 7,000 staff in approximately 200 sites across the province, during a period of time when additional financial and staffing resources were not available, required an innovative approach. In order to make the necessary business process and technology changes, the Ministry needed a private sector partner to complement and add to the skills and knowledge of the Ministry and work jointly with the Ministry to define, develop and implement the changes required. The Ministry also needed a partner that would invest its own human and financial resources to cover the costs of the work.*

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*The key difference between CPP and traditional fixed price arrangements is that, under CPP, the Ministry and private sector partners share the risks and rewards of the work by investing their own human and financial resources and only recovering their costs from the benefits that are generated by the work they do together.*

*By contrast, payments to a vendor in a traditional fixed price arrangement are not directly tied to the achievement of results, and the private sector does not assume the same level of risk.*

*In negotiating its agreement with the selected vendor, the Ministry implemented the concept of CPP consistent with the Management Board guidelines, and also included controls such as a cap on payments and provisions related to warranties, liability, service levels, and breach and termination that, taken as a whole, are without precedent.*

*Additionally, specific pieces of work which are critical to the replacement of the current systems, CIMS and MAIN, have been defined in the agreement as critical to the success of the Project. A key feature of the agreement is that the technology to replace CIMS and MAIN and the business processes for Ontario Works and the Ontario Disability Support Program must be developed, even if savings are not achieved to cover the costs of the Project. These obligations under the agreement reduce risk to the Ministry and ensure the development of a high-quality product.*

*This undertaking not only provided a solution for the Ministry but also provided the government with an opportunity to learn from the Ministry's experience piloting CPP. Management Board is developing revised CPP guidelines. Management Board worked closely with the Ministry to ensure that the revised guidelines will reflect the experiences of the Ministry as it pilots the CPP process.*

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## DETAILED AUDIT OBSERVATIONS

Management Board of Cabinet's Directive and guidelines for CPP state that it is intended to be an open, competitive process for selecting a private sector partner to work closely with ministries on appropriately qualified projects to jointly identify, design, develop and implement new ways of delivering services. Ministries and their partners are to share the risks, investment and rewards of the project.

A ministry may be expected to require private sector expertise and resources and to use CPP for large multi-stage design, build and operate projects for which it is unlikely to have the right mix of time, skills and money to identify, design and develop its own solutions. To the extent that a ministry needs private sector investment and is unable to pay its partner until the project succeeds in providing savings, the potential partner must be capable of sharing project risks and financing its costs until project savings are realized.



The CPP process described in the Management Board of Cabinet's Directive is a two-stage evaluation process for selecting a vendor. In the first stage, vendors are to submit brief written proposals in response to a brief request for proposal from the ministry. The ministry is then to evaluate each proposal based on the vendor's demonstrated experience, expertise, approach, and willingness to share the risks, investments and rewards of the project. The highest ranked vendors are then chosen for a short list to be further evaluated in the second stage.

In the second stage, each short-listed vendor makes an oral presentation in which the vendor must:

- provide details on how it will work with the ministry and what it will do on the project, for example, its partnership, financial management and technical approach to the project, including the sharing of risks, investments and rewards;
- demonstrate why it should be selected; and
- demonstrate why it wants to be selected.

## CHOOSING COMMON PURPOSE PROCUREMENT

The decision to use the CPP process for the acquisition of consulting services is the responsibility of a ministry's management.

Although much of the Ministry's research and planning process for this project preceded the 1995 issuance of the Management Board Directive and guidelines, we understand that draft directives and guidelines were available to the Ministry, and that ministry staff worked closely with staff from the Management Board Secretariat during the research and planning phase of this project. As a result, it is reasonable to expect that ministry staff were aware of Management Board of Cabinet's intentions in this area and, therefore, that they would have complied with those intentions.

Management Board of Cabinet's Directive and guidelines state that CPP is appropriate in a limited number of circumstances that meet certain prescribed conditions. These conditions include having:

- opportunities for sharing the risks, investments and benefits with the partner, with the benefits flowing from the deliverables;
- a well-defined business vision or opportunity, project scope and set of desired business results;
- desired business results that are sufficiently measurable to decisively determine and agree on progress toward achieving those results; and
- an established need to have the same private sector vendor as a partner for all stages of the project.

Our discussions with ministry staff and review of documentation prepared during the research and planning phase of the project indicated that the conditions under which CPP would be the preferred option had not been clearly established. We found that the project's scope and desired business results had not been adequately defined or documented at the time the CPP option was selected. In addition, we found no evidence that the Ministry had assessed whether the



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desired business results would be sufficiently attributable to the vendor-partner or sufficiently measurable to decisively determine and agree on the project's contribution toward achieving them.

In addition, the Ministry could not demonstrate that it had adequately considered using other contracting arrangements or maximizing the use of its own internal resources for at least some aspects of the Business Transformation Project or that it had considered whether having the same vendor for all stages of the project was necessary or desirable.

### **Recommendation**

**For future Common Purpose Procurement projects, the Ministry should adequately document its research and planning to clearly demonstrate whether or not the project meets the Management Board of Cabinet's requirements for such projects.**

**In addition, the Ministry should consider both other contracting arrangements and maximizing the use of its own internal resources. In cases where the Ministry selects neither of those arrangements, it should document the reasons for its decision.**

### **Ministry Response**

*The Ministry recognized that Common Purpose Procurement (CPP) should only be used in special circumstances, and these led Management Board to approve the Business Transformation Project as a pilot.*

*The revised CPP guidelines that are being developed by Management Board recommend that ministries undertake a readiness assessment which includes a business case, a review of the options available to the ministry and a risk assessment. Upon completion of the preparatory work, approval from Management Board of Cabinet is required to proceed with the use of CPP.*

*Subsequent to signing this CPP agreement, the Ministry implemented stringent document management processes which will ensure that decision making is documented and that the documentation is maintained.*

## **COMPETITIVE SELECTION PROCESS**

The Ministry selected the successful vendor through the two-stage CPP process established by the Management Board of Cabinet. Evaluation criteria and score-sheets were established for each stage of the selection process and written evaluations were prepared on each vendor by every member of the evaluation team.

On October 20, 1995, for the first stage of the competition, the Ministry advertised its requirements and requested written proposals from interested vendors. Submissions were received from seven respondents by the deadline of December 4, 1995. Of these, the three that scored the highest were selected for stage two, which was an oral presentation to senior

ministry management and their advisors on January 31, 1996. The successful vendor was notified in April 1996 and was invited to negotiate a definitive agreement with the Ministry.

Our review of the completed score sheets and rating summaries indicated that the selection criteria were, to a great extent, subjective and difficult to conclusively assess or review given the lack of project-specific information available at this early stage. For example, the criteria for selecting the successful vendor from the oral presentations and their relative ratings were as follows:

- 30% for demonstrating an understanding and acceptance of the desired business arrangement, associated risks and critical success factors;
- 15% for appropriateness of proposed sources of savings, reasonableness of forecast of cost to completion, ability to finance the project and demonstrated overall value to the Ministry; and
- 55% for capabilities and project management including commitment, comprehension, culture and team chemistry.

Andersen Consulting was awarded the agreement largely on the strength of its senior management, experience and commitment to the project as well as its understanding of the risks involved, which accounted for 85% of the overall mark for the oral presentation. However, of the eleven senior staff members Andersen Consulting proposed for this project, six, including the project director and assistant project director, were replaced on the project after the agreement was signed, which is a risk associated with the CPP selection criteria. We were advised that these senior management changes were approved by the Ministry.

In our view, determining whether the most cost-effective proposal was accepted was not possible because under the CPP process:

- bidders are not required to propose business process revisions or technologies or to describe the nature and extent of the work to be performed; and
- cost is not a factor in the short listing of CPP proposals or the selection of the successful vendor.

In addition, the Ministry informed us that it was unable to locate documentation prepared at the time of its reference checks for the short-listed vendors. Such reference checks are normally an integral part of the selection process and ought to be retained.

### **Recommendation**

**To help ensure that the most cost-effective proposal is selected for all future Common Purpose Procurement projects, the Ministry should enhance the selection process by:**

- **demonstrating the risk/reward implications and overall value to the Ministry of each proposal; and**
- **retaining documentation on completed reference checks.**

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### **Ministry Response**

*Consistent with the initial guidelines, the Ministry established the overall value, to the Ministry, of each proposal by including overall value as one of the evaluation criteria. At that time, overall value was based on a limitation to the amount of costs and risk to be assumed by the Ministry.*

*The revised Common Purpose Procurement (CPP) guidelines being developed by Management Board recommend a revalidation of a ministry's business case with the short-listed vendors during the selection process. This will further assist ministries and vendors with validating the financial and business model with respect to the sharing of risks and rewards at an earlier stage.*

*Subsequent to signing this CPP agreement, the Ministry implemented stringent document management processes which will now ensure that decision making is documented and that the documentation is maintained.*

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## **AGREEMENT BETWEEN THE MINISTRY AND ANDERSEN CONSULTING**

Once the Ministry had selected Andersen Consulting as the successful vendor, it proceeded to negotiate the agreement, which was signed on January 27, 1997.

The agreement included the following significant terms.

- The term of the agreement is for four years from the date of signing plus the possibility of one additional year, subject to mutual agreement. The decision regarding the one-year extension must be made by the end of the second year of the agreement.
- Payments to Andersen Consulting are not to exceed \$180 million, excluding expenditures for hardware, third party software, production support and help desk services, annual application maintenance exceeding \$3 million per system release and any applicable taxes. The parties may mutually agree to adjust project outcomes, level of effort, or the parties' responsibilities for specific tasks to remain within this maximum amount. In addition, the \$180 million maximum payment may be reviewed in conjunction with the review of the term of the agreement by the end of the second year if specific conditions are met.
- Specific project deliverables are to be set out in task orders which both parties must agree to. All task orders for deliverables that both parties determine to be critical for the success of the project will be designated critical task orders and must be completed. Failure to fulfil the obligations of a critical task order may be considered grounds for breach of the agreement.
- Each task order must include a description of a number of requirements such as expectations, business objectives, deliverables to be provided, estimated costs and benefits, metrics, personnel and infrastructure requirements, acceptance criteria, warranties, a schedule for completion and the accountabilities of the Ministry and Andersen Consulting.



- Andersen Consulting and ministry costs associated with approved task orders will be charged to a cost pool at amounts and rates specified in the agreement. In addition, each party is to charge interest to the cost pool on all non-reimbursed costs thirty days after such costs are added to the cost pool.
- Financial savings associated with approved task orders will be calculated according to the specifications of the respective task orders and will be added to a benefit pool. The balance in the benefit pool will be carried forward from year to year.
- Each party is entitled to recoup its costs and associated interest charges from the benefit pool in proportion to the costs and interest it has charged to the cost pool.
- Unless otherwise agreed to, no distribution of savings is to occur until total amounts in the benefit pool exceed the total amounts in the cost pool. At such time, distributions to the parties will occur on a monthly basis.
- Andersen Consulting may be entitled to incentive payments based on a formula specified in the agreement.

At the conclusion of our fieldwork in February 1998, seven task orders had been approved. The main objectives of these task orders were: to establish a project management office and develop administrative procedures; to develop a comprehensive social assistance delivery model (blueprint) for the revised social assistance system; and to implement early opportunities for enhancements to existing social assistance systems and processes.

Costs incurred to March 31, 1998 totalled approximately \$39 million, of which \$34 million related to Andersen Consulting and \$5 million related to the Ministry. The balance in the benefit pool was approximately \$17.7 million, all of which related to the implementation of an early opportunities initiative which involved making changes to the existing social assistance systems and processes.

Our review of the agreement between the Ministry and Andersen Consulting and related records for work completed to date raised a number of significant concerns as the following sections demonstrate.

## MAXIMUM CONTRACT PAYMENTS

Although not required by the then-current CPP directive, specifying an appropriate maximum contract price for a CPP agreement is important because it limits the Ministry's overall liability and should ensure that the maximum payments agreed to are reasonable and commensurate with the value of the work to be performed. Also, a maximum price acts as a safeguard for the Ministry, since payments are to be made from accumulated savings that, in some instances, will be inherently difficult to measure or attribute to the CPP initiative.

We were advised that the maximum payment of \$180 million was arrived at through a process of negotiation. The Ministry was unable to demonstrate how it assessed the appropriateness of the maximum \$180 million fee agreed to. Although project costs were considered difficult to estimate, we noted that the \$180 million significantly exceeded the vendor's preliminary cost estimate provided during the competitive selection process. The vendor indicated that the preliminary cost estimate of \$50 million to \$70 million would be affected by variables such as complexity and the extent of the transformation.



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We also noted that the Ministry had not prepared any cost estimates for the work necessary under the Business Transformation Project. As a result, it was unable to assess or compare the reasonableness of the maximum payment agreed to in relation to estimates of costs for work that could be reasonably expected to be performed.

The Ministry estimated that its Business Transformation Project, initiated in 1995/96, could result in annual ministry savings of \$190 million, based on a 50% program cost-sharing arrangement with municipalities (the cost-sharing arrangement is now 80% provincial–20% municipal). This amount consisted of estimated savings from program administration and reductions in program expenditures.

However, after reviewing these savings estimates, we had several concerns, which are detailed below:

- The estimate of potential administrative savings was based on the experiences of a similar business transformation project undertaken in another smaller jurisdiction. Since the circumstances of that jurisdiction's social assistance program were significantly different from Ontario's, and since revised business processes and technologies for Ontario have yet to be defined, the reasonableness of the estimated administrative savings is questionable.
- Estimated savings in program expenditures included a number of factors which were not attributable directly to the Business Transformation Project, such as the effect of new policy directions and better compliance with existing policies and procedures. As a result, attributing all of the expected program benefits to the agreement with Andersen Consulting would likely over-estimate the agreement's effect on program savings.

In addition, the Ministry may review the agreement's \$180 million maximum payment for fees by the end of the second year. At that time, the Ministry may agree to revise the maximum amount or negotiate an adjustment to the project's outcomes to stay within the existing fee maximum if the following conditions are met:

- both parties have agreed to extend the four-year term of the agreement to five years;
- either the scope of the work has materially altered or additional effort is required to respond to the complexity and business changes resulting from the reforms to the delivery of social assistance in the context of the emerging vision for social and community health services; and
- the combination of the first two factors results in a material increase in the work required to be performed.

However, neither the method for determining whether additional efforts are required due to increased complexity and business changes nor the method for determining revisions to the maximum contract price had been defined.

### **Recommendation**

**To help ensure that maximum payments under future Common Purpose Procurement agreements are reasonable and commensurate with the value of the work to be performed, the Ministry should:**

- assess and compare the reasonableness of the maximum contract payment agreed to with the estimated cost of the work that may be reasonably expected to be performed; and
- clearly identify and segregate expected benefits directly attributable to the work to be performed under the agreements.

Also, if the Ministry anticipates that changes to a project's scope or the amount of work required for its completion may require changes to a contract, it should clearly state the criteria to be used for determining when such changes have occurred and for deciding how the maximum contract fee will subsequently be altered.

### **Ministry Response**

*Under Common Purpose Procurement (CPP), the parties jointly define the solution to an identified problem. Accordingly, the cap on payments negotiated by the Ministry after the successful vendor was selected is based on an understanding of the scope of the work contemplated in the original request for proposals. The cap on payments is not a guaranteed payment to the vendor; it is a maximum investment commitment. An adjustment to scope does not necessarily result in an increase to the cap on payments.*

*One of the premises of the CPP agreement is that savings can only be attributed to the Business Transformation Project if the Project contributed to the achievement of those savings. This contribution can include the development of tools and processes required to support the implementation of ministry policies. It is through the development and implementation of metrics (performance measures) that savings directly attributable to project work are measured.*

*In future CPP agreements, the Ministry will include additional criteria and processes for determining potential changes to project scope.*

## **EXCLUDED COSTS**

It is important that the costs of all necessary goods and services to be acquired for the project be included under the maximum payment agreed to in order to allow the Ministry to effectively estimate and control its overall project costs. In instances where it is deemed necessary to reimburse the consultant in addition to the maximum payment agreed to, the circumstances under which such reimbursements are to be made ought to be clearly defined. In addition, the likely cost of the items to be reimbursed needs to be reasonably estimated to maintain overall cost control for the project.

In our review of the agreement between the Ministry and Andersen Consulting, we noted that in addition to the maximum fee of \$180 million, Andersen Consulting is to be reimbursed out of savings for certain project costs. Reimbursable items include computer hardware, purchases of third party software, production support, help desk services, annual application maintenance costs in excess of \$3 million per system release and any applicable taxes. However, we found

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that the circumstances under which costs for some of these items ought to be incurred had not been clearly defined. In addition, the costs of the excluded items had not been estimated even though they may be substantial.

### **Recommendation**

**In order to more effectively estimate and control overall ministry payments for future Common Purpose Procurement projects, the Ministry should minimize the number of items excluded from maximum payment amounts. When items are excluded from maximum payment amounts, the items and the circumstances under which costs for them ought to be incurred should be clearly defined and estimated.**

### **Ministry Response**

*The Ministry agrees that it is important to minimize the number of items to be excluded from a cap on payments. The Common Purpose Procurement (CPP) agreement identifies the items that are excluded from the cap on payments. These items include hardware, third party software, production support, help desk services and application maintenance. The costs associated with these items will be confirmed at the lowest possible end user cost using the government procurement process.*

*In future CPP arrangements, the Ministry will more clearly define excluded items and will consider including an estimate of costs for those items.*

## **COST POOL**

The agreement between the Ministry and Andersen Consulting specifies the rates and amounts that both parties may charge to the cost pool as follows.

### **ANDERSEN CONSULTING**

- Fees for Andersen Consulting will be charged for actual hours at their standard published billing rates, as established unilaterally by Andersen Consulting from time to time.
- Out-of-pocket expenses incurred by Andersen Consulting personnel and subcontractors will be charged at actual cost, subject to Government of Ontario policy and guidelines, and are to be supported by receipts.
- Subcontractor costs will be charged at the value of subcontractor invoices.
- Licence fees for Andersen Consulting Class A software will be charged at Andersen Consulting's standard published rates.
- All third party software will be procured through Andersen Consulting's Business Integration Providers program provided that prices are equal to or better than existing government purchase arrangements.



- Most, if not all, hardware will be leased. Hardware that is leased or purchased for the project will be procured through Andersen Consulting's Business Integration Providers program provided that prices are equal to or better than existing government purchase arrangements.
- Interest at rates reflecting Andersen Consulting's borrowing capacity and credit rating will be charged to the cost pool on all non-reimbursed costs 30 days after costs are added to the cost pool.

## *MINISTRY OF COMMUNITY AND SOCIAL SERVICES*

- Ministry personnel costs will be charged for actual hours to the cost pool at a rate that accounts for salary, benefits and 15% of salary costs for other direct operating expenditures.
- Out-of-pocket expenses incurred by ministry personnel will be charged at actual costs, subject to Government of Ontario policy and guidelines, and are to be supported by receipts.
- Interest at rates reflecting the Government of Ontario's borrowing capacity and credit rating will be charged to the cost pool on all non-reimbursed costs 30 days after costs are added to the cost pool.
- Ministry costs for incremental office space and equipment directly attributable to the project will be charged at demonstrably competitive rates for the locations involved.

In addition to the costs outlined above, other costs such as legal fees, costs associated with dispute resolution, consultants, and so on, may be added to the cost pool as appropriate, based on prior mutual agreement of the parties.

As of December 31, 1997, total accumulated costs were approximately \$31 million (\$39 million as of March 31, 1998). Of the \$31 million, \$28.3 million, or 91%, related to Andersen Consulting fees and charges for ministry staff time. Most of the remainder related to out-of-pocket expenses and interest charged on non-reimbursed costs.

## *BENEFIT DISTRIBUTION—CHARGEABLE RATES*

Our review of charges for staff time indicated that the standard published billing rates charged to the project for Andersen Consulting staff time were significantly higher than the rates for ministry staff time for comparable work as indicated in Table I. This situation contributed to Andersen Consulting obtaining a disproportionate amount of the benefit pool in relation to its work effort. For example, we found that as of December 31, 1997, Andersen Consulting had been allocated and paid 90% of the amount in the benefit pool but had contributed only 63% of the total hours spent on the project.

In addition, we noted that the rates Andersen Consulting was charging for staff time exceeded the rates quoted at the time of its response to the Ministry's December 1995 request for proposal by an average of 63% as indicated in Table II. As previously stated, Andersen Consulting may at any time increase its standard published billing rates and charge the higher rates to the project without the approval of the Ministry.



**Table I**  
**Comparison of Rates for Andersen Consulting Staff**  
**with Rates for Ministry Staff, as Used for Determining Benefit Distributions**

	<b>Andersen Consulting Per Hour (\$)</b>	<b>Ministry Per Hour (\$)</b>
Project Director	575	70
Task Order Manager	430-560	59-63
Quality, Risk and Knowledge Coordinators	425	59
Finance Manager	170	51
Financial Analyst/Clerical Support	85-115	28-32
<i>Overall Average Rate: Charged to the Cost Pool</i>	283	51

*Source: Ministry of Community and Social Services data*

**Table II**  
**Comparison of Andersen Consulting's 1995 Proposed Rates with Actual Rates at  
December 31, 1997**

	<b>Proposed Rates Per Hour (\$)</b>	<b>Actual Rates Charged Per Hour (\$)</b>
Project Director	300-400	575
Technical/System Architect	200-300	450
Design Specialists	200-300	335-472
System Designer	150-250	230-325
Application Developer	70-140	105-250

*Source: Ministry of Community and Social Services data*

### **Recommendation**

**Future Common Purpose Procurement agreements should ensure that project savings are distributed equitably, based on the relative contributions of ministry and consulting staff, which will not necessarily correlate with the relative salary levels of ministry staff or the billing rates of consulting staff.**

### **Ministry Response**

***The revised Common Purpose Procurement (CPP) guidelines being developed by Management Board recommend that an equitable distribution of benefits be established. In future CPP arrangements, the Ministry will look at alternatives to the distribution of benefits, in accordance with the guidelines being developed.***

## **OUT-OF-POCKET EXPENSES**

As of December 31, 1997, out-of-pocket expenses for accommodation, travel and meals totalled \$1.55 million; \$1.4 million of that amount was for expenses incurred by Andersen Consulting staff. We noted that the Andersen Consulting charges for out-of-pocket expenses averaged approximately \$26,000 for each full-time-equivalent position assigned to the project during the first year.

The project's agreed-upon expense policy guidelines indicated that, to facilitate audit and accounting reconciliation, copies of all Andersen Consulting's expense claims for out-of-pocket expenses and supporting receipts were to be submitted to the project management office. To ensure that the expenses submitted were in compliance with the project's agreed-upon expense policies, they were to be reviewed on a bi-weekly basis.

However, we found that, for a majority of Andersen Consulting staff claims for out-of-pocket expenses we reviewed, copies of the required receipts had not been submitted to the project management office. As a result, the review necessary to establish whether these claims were reasonable and appropriate could not be completed by the Ministry or by us.

### **Recommendation**

**The Ministry should ensure that all necessary receipts for out-of-pocket expenses to be charged to the Business Transformation Project are received and reviewed by the project management office so that they can be checked for reasonableness and compliance with relevant expense policies.**

### **Ministry Response**

***The Ministry is committed to accountability and is pleased that the Provincial Auditor brought this issue to our attention. Upon being notified of the issue, the Ministry obtained and reviewed the appropriate receipts, and they are now kept on site. All receipts will be kept on site in the future.***

## **INCOMPLETE MINISTRY COSTS**

We reviewed ministry costs included in the cost pool for the early opportunities initiative to December 31, 1997 (see section on Benefit Pool) and found them to be incomplete.

- The Ministry's costs for programming changes to CIMS, including other consultants' services, totalled approximately \$280,000 but were not included.

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- The Ministry's costs for manually reviewing files in ministry offices and assessing recipients' eligibility were not included. Although it is difficult to estimate the total costs involved, we believe they are likely to be substantial.

As a result, the Ministry's contribution to the cost pool was understated, which resulted in fewer benefits being allocated to the Ministry for the early opportunities initiative than should have been the case.

### **Recommendation**

**To ensure that the benefits of the Ministry's Business Transformation Project are fairly distributed, the Ministry should include all of its costs related to that project in the project cost pool.**

### ***Ministry Response***

***The Ministry has now added the costs associated with Change Reporting systems changes to the cost pool. In general, costs for implementing new processes will be added to the cost pool.***

## **INTEREST CHARGES**

Interest charged on non-reimbursed costs to December 31, 1997 totalled approximately \$600,000, of which \$560,000 was attributed to Andersen Consulting and \$40,000 to the Ministry. The average interest rates charged by Andersen Consulting and the Ministry were 5.5% and 4.1% respectively.

However, the basis on which interest charges were calculated, particularly for Andersen Consulting, was to the Ministry's disadvantage. We noted that, in accordance with the Agreement, Andersen Consulting's interest was calculated based on its full published rates, which included a significant mark-up, and not on cash outflows or actual interest expenses incurred, which we believe would be a more appropriate basis.

In addition, in light of the early opportunity payments already made to Andersen Consulting, it was unclear how much of Andersen Consulting's cash costs had already been reimbursed by the Ministry at any point in time, which made the calculation of interest on non-reimbursed costs uncertain.

### **Recommendation**

**If interest is charged on non-reimbursed costs for future Common Purpose Procurement projects, the Ministry should ensure that amounts paid are based on actual interest expenses incurred.**

## Ministry Response

**All Project costs are eligible and reimbursable. Interest has been applied to the complete amount outstanding as per the standard billing approach. In future Common Purpose Procurement agreements, the Ministry will review alternative approaches to charging interest.**

## BENEFIT POOL

Up to December 31, 1997, the balance in the benefit pool was \$11.5 million (\$17.7 million as of March 31, 1998). All of that amount was attributed to Early Opportunities Change Reporting Task Orders which were part of the early opportunities initiative. The task orders primarily entailed a manual review of case files at ministry offices, improvements in the monthly income reporting and entitlement calculation process for the Family Benefit program, and related programming changes in CIMS.

Work with Andersen Consulting on this initiative began in January 1997, and the first two phases of change reporting were completed by November 1997.

**Comparison of Benefits and Recorded Work Effort  
for Early Opportunities Task Orders as at December 31, 1997**

	Andersen Consulting	Ministry	Total
Benefit Allocation	\$10.3 million (90%)	\$1.2 million (10%)	\$11.5 Million (100%)
Time Spent	1,046 days (69%)	460 days (31%)	1,506 days (100%)
Costs Charged	\$2.3 million (88%)	\$3 million (12%)	\$2.6 million (100%)

*Source: Ministry of Community and Social Services data*

All of the above benefits allocated to Andersen Consulting as of December 31, 1997 had been paid by January 31, 1998. According to the Ministry, benefits allocated and paid to Andersen Consulting to March 31, 1998 were \$15.5 million while costs charged by the firm to that date totalled \$2.4 million for the Early Opportunities Change Reporting Task Orders.

However, we believe that it was not necessary to include the Early Opportunities Change Reporting Task Orders in the CPP agreement, which resulted in unnecessary payments to Andersen Consulting, for the following reasons:

- Alternative ways of proceeding with this work had not been identified or assessed at the time the decision was made to incorporate this work into the CPP.
- Ministry staff were well aware of the needed changes. In fact, a number of previous audit reports by the Provincial Auditor as well as a report by the Standing Committee on Public Accounts had made significant recommendations for improvements in these areas.



- A Ministry report dated November 1995 indicated that work in this area had already been planned and started in 1994. Although we understand that this work was temporarily suspended at that time due to other priorities, work on programming changes to CIMS proceeded again in the summer of 1996.
- A substantial portion of the work was conducted by ministry staff. For example, manual file reviews were conducted by ministry staff and all of the programming changes to CIMS were undertaken by ministry staff together with other consultants retained and paid for by the Ministry, even though, as previously noted, most of these costs were not charged to the cost pool.
- Since early opportunity savings significantly exceeded costs, it would have been more economical for the Ministry to proceed with this work outside of the CPP agreement, for example, proceeding on a fee-for-service basis.

We were advised that the Early Opportunities Task Orders were intended to rapidly generate benefits which could be used in the early days of the project to demonstrate project successes and enable the project's self-funding strategy. As a result, there was no evidence that the Ministry had assessed the various alternative ways of proceeding or the benefits of proceeding with this work outside of the CPP agreement. This raises the question of whether proceeding with these task orders under the CPP was or was not providing the Ministry with the most value for money spent.

### **Recommendation**

**The Ministry should ensure that if additional work is to be incorporated into the current or future Common Purpose Procurement projects, the benefits of that work as compared with the benefits of other alternatives are clearly established.**

### **Ministry Response**

*The Ministry agrees that it is important to evaluate benefits compared with other alternatives. When additional work is to be included in a Common Purpose Procurement (CPP), the Ministry will assess the various ways of proceeding and select the alternative which represents the most value for the Ministry and is consistent with existing contractual arrangements and the need for integration into a comprehensive solution that supports the reform of social assistance.*

*CPP is a risk-based arrangement in which the vendor invests its own human and financial resources with no guarantee of payment. All of the work does not generate benefits. Many components of the work will improve administration without generating benefits. Some tasks do generate financial benefits and assist with balancing costs and benefits. To date, costs charged to the cost pool have been significantly higher than benefits.*

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## BENEFIT MEASUREMENT

In order to determine the extent to which task orders have met their objectives and contributed to the financial savings of the project, detailed performance measures referred to as “metrics” are developed. The metrics attempt to quantify the financial savings achieved by task orders by comparing the performance of revised systems or processes with a baseline derived from the performance of existing systems or processes prior to revision. We were advised that as part of the metrics development process, periodic reviews are to be undertaken.

As of December 31, 1997, five different metrics were used to determine the financial savings attributable to the Early Opportunities Change Reporting Task Orders. Two of these, metrics for determining savings from automatic case cancellations and for determining savings from manual file reviews, accounted for \$9.7 million, or 84%, of the total savings reported.

Our review of automatic case cancellation and manual file review metrics indicated that, in some cases, the identified savings had been overstated or unnecessarily attributed to the Early Opportunities Change Reporting Task Orders, which resulted in excessive payments to Andersen Consulting as demonstrated in the following two sections.

### *AUTOMATIC CASE CANCELLATIONS*

The metric for automatic case cancellations was to measure savings resulting from programming CIMS to automatically cancel the benefits of recipients who do not report required income information for two consecutive months. Savings totalling \$7.1 million for all offices were estimated using this metric. These savings were determined by comparing the number of automatic benefit cancellations by CIMS after reprogramming to the number of similar, manual cancellations that took place during the base period without verification of the CIMS data.

Our review of the calculation of these benefits resulted in the following concerns.

- For one of the five pilot offices whose automatic benefit cancellation data we reviewed, the benefits were calculated based on 61 automatic benefit terminations for non-reporting of income information even though that office indicated to us that only 36 such cancellations had occurred. We estimated that this discrepancy resulted in a savings overstatement of \$117,000 as of December 31, 1997, which will increase to over \$200,000 during the one-year accumulation period for such savings.
- Province-wide savings were calculated using a baseline of 32 benefit cancellations for non-reporting of income information per month. However, this baseline failed to consider the approximately 2,000 recipients per month whose benefits were on manual hold and, therefore, were also not paid. Based on ministry data and assumptions, we estimated that this oversight had resulted in a savings overstatement of approximately \$960,000 as of December 31, 1997.

### *MANUAL FILE REVIEWS*

The metric for manual file reviews measured savings based on benefit terminations for recipients who had not reported income for a long time and were manually terminated as a result of files being brought up to date in preparation for automatic benefit cancellation. Savings totalling \$2.6 million were attributed to this metric. In our view, these savings were attributed to

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this project and subsequently paid to Andersen Consulting unnecessarily for the following reasons.

- Ministry staff were well aware of the need to obtain recipients' income information to establish their eligibility for benefits. In fact, the Provincial Auditor's *Annual Reports* for 1992 and 1996 commented on the need for improved administration to ensure that all information necessary to establish recipient eligibility was received.
- All of the work undertaken was already a requirement under the Ministry's current policies and procedures for the Family Benefits program and, in fact, ministry staff performed all of the work.

### **Recommendation**

**To ensure that task order metrics fairly account for the relative contribution of savings by each partner in the Business Transformation Project, the Ministry should ensure that:**

- amounts included in the benefit pool are accurately determined; and
- financial savings attributable to ministry staff adhering to previously established policies and procedures are not included in the project's benefit pool.

### **Ministry Response**

*The Ministry is committed to ensuring that the amounts included in the benefit pool are accurately determined. As part of the ongoing metrics development process, a periodic review process had been established during the audit which reviews the assumptions and information related to performance measures. The Ministry is continuously reviewing the assumptions and information related to performance measures and, subsequent to the audit, has already adjusted both the baseline used to establish certain metrics and the resultant savings included in the benefit pool.*

## **CURRENT PROJECT STATUS**

The agreement between the Ministry and Andersen Consulting included a list of critical functions and a preliminary timetable for their expected completion. These critical functions included:

- preparation of a comprehensive social assistance delivery model (blueprint) for the revised social assistance system;
- re-engineering design, build and rollout of release 1—an application providing for the replacement of CIMS and MAIN technologies and basic functionality required to deliver Income Support and Ontario Works programs; and

- re-engineering design, build and rollout of release 2—an application to provide additional functionality in order to improve system service delivery and achieve additional cost savings.

The original preliminary timetable (high level critical path) for completion of the above deliverables was revised in July 1997, as illustrated in the following table:

**Original and Revised Timetables  
for Implementation of Release 1**

Project Stages	1997				1998				1999				2000		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Blueprint															
Revised – Blueprint*															
Technology Infrastructure															
Re-engineering/Design R1															
Revised - Re-engineering/Design R1**															
Release 1 Build															
Revised - Release 1 Build**															
Release 1 Rollout															
Revised - Release 1 Rollout															
Release 1 Maintenance & Support															
Revised - Release 1 Maintenance & Support															

\* status as of March 31, 1998: completed

\*\* status as of March 31, 1998: not yet started

Source: Ministry of Community and Social Services

We noted that, at the completion of our fieldwork in February 1998, a comprehensive social assistance delivery model (blueprint) for the revised social assistance system had been prepared. However, the next stages of the release strategy, the design and build phases of release 1, had not commenced, which put the project significantly behind both the original preliminary schedule and the revised schedule for completion of these phases.

### Recommendation

The Ministry should take the steps necessary to ensure that the work under the agreement with Andersen Consulting supports the delivery of the Ontario Works program and the Ontario Disability Support Program with the revised business processes and technology solutions at the earliest opportunity.



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### **Ministry Response**

***The Ministry is committed to ensuring that the necessary business processes and technology are in place as quickly as possible to support the delivery of Ontario Works and the Ontario Disability Support Program.***

***The Business Transformation Project has already successfully supported the implementation of several new business processes.***

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## **OTHER MATTERS**

### **ADDITIONAL CONSULTING ASSISTANCE ACQUIRED**

The Ministry retained the services of a consultant to help with the development of the request for proposal for the Business Transformation Project and the subsequent evaluation of proposals received and to assist during the contract negotiation phase.

A request for proposal for those services was issued on June 7, 1995. Three proposals were received from consulting firms by the June 14, 1995 deadline for submissions. Management Board of Cabinet's Consulting Services Directive specifies that ministries must select the consultant with the lowest evaluated cost from among the consultants capable of completing the assignment.

Our review of the three proposals found that proposed fees ranged from \$90,000 to \$119,000. We noted that the proposal for \$90,000 was from a major consulting firm and included the services of at least three individuals with expertise in information technology, finance and government privatization projects. The proposal for \$119,000 was also from a major consulting firm but included the services of only one individual, who had expertise in information technology and large service contracts.

Each of the three respondents was interviewed on June 16, 1995, and the contract was awarded to the highest bidder on June 19, 1995. We found no support for the choice of the successful bidder, because the Ministry was unable to provide rating sheets or other adequate documentation in support of its selection of the successful vendor.

The contract with the successful vendor was signed on June 21, 1995 for a fee not to exceed \$165,700. The contract was revised several times to accommodate the amount of \$285,500 actually paid. We found insufficient supporting evidence to assess the reasonableness of the contract revisions or the amounts paid. We noted that the consultant was not required to prepare a report for this assignment, and the Ministry could not provide adequate documentation to support the hours spent by the consultant.

According to the Ministry's own policies, when an assignment's original terms of reference have been well defined, service contracts should require extension only under limited

circumstances. We noted that the Ministry had not determined the type of consulting expertise required for this assignment. For example, we understand that some of the cost increases under this agreement were attributable, in part, to the need for additional expertise in areas such as finance, which had been included in the rejected, lowest cost proposal.

### **Recommendation**

**In future, the Ministry should fully establish the type of consulting expertise it requires prior to the competitive selection stage to help ensure that selected proposals offer all the needed services.**

**To be able to demonstrate the basis on which a successful vendor was selected and that the selection process was fair, the Ministry should prepare and retain rating sheets or other documentation for every proposal received and evaluated.**

**In instances where it is deemed necessary to sign or revise an agreement for more than the proposed fee, the Ministry should clearly establish and document the reasonableness of the revision and the basis for its approval.**

### **Ministry Response**

***The Ministry agrees that the need for consulting services, initially and for any revisions, should be clearly defined and that the documentation regarding the resulting process is retained.***

***Subsequent to signing this consulting agreement, the Ministry implemented stringent document management processes which now ensure that decision making is documented and that the documentation is maintained.***

## **QUALITY COUNCIL**

Under terms of the agreement between the Ministry and Andersen Consulting, a Quality Council was established to provide independent oversight and a proactive approach to quality issues. The role of the Council includes:

- ensuring that the project stays focused on the needs and expectations of stakeholders;
- validating that current and future commitments made by the project are achievable; and
- providing the project directors with coaching and independent arm's length advice.

The Quality Council is to meet at least twice a year, and, at the time of our audit, had met the required two times.

We noted that the Council had a membership of nine members, eight of whom were from the private sector or other levels of government. The ninth member was a partner of Andersen Consulting, even though the Ministry did not have a member on the Council. In our view, the presence of an Andersen Consulting partner as a member of the Quality Council could be

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perceived as a conflict of interest, since it may affect the independence and objectivity of the Quality Council's deliberations.

### **Recommendation**

**To protect the independence and objectivity of the Quality Council's work, all members of the Quality Council should be free of any actual or perceived conflicts of interest.**

### ***Ministry Response***

***The Ministry will ensure that there is no real or perceived conflict of interest on the Quality Council.***

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## MINISTRY OF COMMUNITY AND SOCIAL SERVICES

# Ontario Works Program

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Short-term financial assistance to allow for a basic standard of living has historically been provided under the *General Welfare Assistance Act* (GWA) to individuals who were unable to provide for themselves. This was distinct from assistance under the *Family Benefits Act* (FBA), which provided financial assistance for prolonged periods of time, primarily to individuals who were in need and were considered permanently unemployable as a result of physical or mental disability, or were sole support parents with dependent children.

The *Social Assistance Reform Act*, which received Royal Assent on November 28, 1997, provided the framework for the Ontario Works Program to replace social assistance under GWA and FBA. The *Ontario Works Act* and the *Ontario Disability Support Program Act*, proclaimed on May 1, 1998 and June 1, 1998 respectively, now provide for assistance formerly provided under the *General Welfare Assistance Act* and the *Family Benefits Act* as well as the *Vocational Rehabilitation Services Act*.

The Ontario government announced the Ontario Works Program on June 12, 1996. The objective of the Program is to provide financial assistance while participating individuals become self-sufficient and contributing members of their community by following the shortest route to a paid job. Participation in the Ontario Works Program is mandatory for most former General Welfare Assistance recipients in order for them to remain eligible for financial assistance. GWA recipients with disabilities, seniors and sole support parents were not required to participate in the Ontario Works Program. Additionally, GWA recipients who are ill or incapacitated, or have to care for a family member who is disabled, ill or aged with special care needs, are temporarily exempted from the Program's requirements. Regulations to expedite the implementation of the Program until new legislation could be enacted were made under the *General Welfare Assistance Act*, effective September 1, 1996.

At the time of our audit, Family Benefits Assistance recipients could voluntarily participate in the Program at any time. In addition, the Ontario Works Program had not been implemented for the social assistance recipients of the province's 103 First Nations.

At March 31, 1998, the end of the most recent fiscal year, approximately 251,500 recipients representing a total of 456,000 beneficiaries received General Welfare Assistance. GWA expenditures were approximately \$1.76 billion for the 1997/98 fiscal year. Similarly, at March 31, 1998, 300,000 recipients representing a total of 639,000 beneficiaries received Family Benefits, which totalled approximately \$2.98 billion for the fiscal year.



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## ONTARIO WORKS PROGRAM COMPONENTS

The Ontario Works Program provides for employment assistance under the three following components.

- **Employment Support**

The intent of the Employment Support component is to help participants become job-ready and to support their shortest route to paid employment through job search assistance or participation in basic education or job-specific skills training. Job search assistance may include help with a structured or independent job search.

A caseworker must determine the nature of employment supports to be provided on a participant-by-participant basis.

- **Community Participation**

The intent of the Community Participation component is to enable participants to contribute to the betterment of their community while receiving social assistance, and to gain valuable work experience, employment related skills and access to networks that will help them move into the paid work force.

A Community Participation placement is any unpaid community service activity under the direction of community officials and/or public or non-profit organizations. Participants may spend a maximum of 70 hours per month and six months in total at any one approved placement except where a specific plan of skill training is in place, in which case a participant may spend up to 11 months in the placement. There is no minimum number of hours a month that a participant must spend at a community placement.

- **Employment Placement**

The intent of the Employment Placement component is to have job placement agencies place job-ready participants into unsubsidized, competitive employment and may include supporting participants interested in self-employment.

Employers must not receive any wage or training subsidy from any other public source for the position in which a participant is placed.

The Ministry expects that the Employment Placement component will be implemented through a request for proposal process open to private sector employment placement agencies. Direct delivery of this component by a municipal delivery agent is allowed if approved by the Ministry.

## ONTARIO WORKS PROGRAM ADMINISTRATION

The Ontario Works Program is delivered across the province through 63 municipal delivery agents representing large municipalities or groupings of smaller municipalities. Municipal delivery agents are accountable to the Ministry and report to the Ministry's 12 area offices. To facilitate the implementation of the Ontario Works Program, each municipal delivery agent was expected to complete a business plan for the first three years of the Program that described:

- the number and type of recipients who will be referred to each of the three components of the Program and the timeframe for referrals;

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- how recipients in need of basic education and training will be identified and referred to existing resources in the local community;
  - how the municipal delivery agent will ensure access for voluntary participants in each component, with a target of a minimum of 10% of total participants who are voluntary; and
  - the targeted outcomes against cost of delivery.

Each business plan is to be reviewed and approved by the Ministry and provides the basis for annual service agreements with each delivery agent.

In addition, the Ontario Works Program requires that all participants have a participation agreement that is tailored to their assessed needs and circumstances with clearly stated plans for educational upgrading, mandatory job search activities, community participation or employment placement or referrals, and expectations for follow-up.

The participation agreement has three main purposes:

- to outline social assistance recipients' requirement to participate in the Ontario Works Program as an ongoing condition of eligibility for social assistance and to acknowledge their agreement with what is expected of them;
- to detail the specific activities in which the recipient will participate; and
- to support the monitoring, benefit cancellation/reduction and appeals process.

The Ontario Works Program's budgeted expenditures for the 1997/98 fiscal year were \$170 million, of which \$62.8 million was actually spent.

## OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry's administrative procedures for the Ontario Works Program were adequate to ensure that:

- transfer payments to municipal delivery agents were reasonable and satisfactorily controlled; and,
- services provided by municipal delivery agents were monitored and assessed to determine whether they were meeting the Ministry's expectations.

The scope of our work included a review of the Ministry's administrative policies and procedures for the Ontario Works Program and in-depth interviews with staff at the Ministry's head office and three area offices. We also obtained information on the Program's operations from the area offices that we did not visit by means of a detailed questionnaire. Since the Program is delivered by municipal delivery agents, we also reviewed relevant documentation and interviewed staff at six municipal delivery agents and requested information from nine others by means of another detailed questionnaire. We conducted our audit during the period March to May 1998.

For the fiscal year 1997/98, GWA payments to First Nation members amounted to approximately \$40 million for approximately 7,000 recipients. Although First Nations are expected to participate in the Ontario Works Program, we excluded First Nations from the

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scope of our audit because they were not participating in the Ontario Works Program at the time of our audit and had not received any Ontario Works Program funding.

Our audit was conducted in accordance with professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We were unable to rely on the work of the Ministry's Comprehensive Audit and Investigations Branch to reduce the extent of our audit work because the Branch had not reviewed or issued a report on the Ontario Works Program which is relatively new.

## OVERALL AUDIT CONCLUSIONS

We concluded that transfer payments approved for municipal delivery agents were reasonably controlled in that they were directly related to the amount of services to be provided. However, we were unable to assess the adequacy of the Ministry's procedures for identifying and recovering funding surpluses, if any, since at the time of our audit most municipal delivery agents had not yet completed a financial settlement with the Ministry for the Program's first year.

We also concluded that the Ministry needed to improve its monitoring and assessment of services provided by municipal delivery agents to Ontario Works Program participants to determine whether they are meeting the Ministry's expectations. More specifically, it needed to ensure that:

- an appropriate number of participants are enrolled in the Community Participation and Employment Placement components of the Program;
- it can demonstrate that all social assistance recipients with participation requirements in the Ontario Works Program are in fact registered in the Ontario Works Technology information system or equivalent, and have entered into a participation agreement;
- the administration and effectiveness of the Program is adequately monitored; and
- corrective action is taken to address the many deficiencies identified with the computerized Ontario Works Technology information system.

## DETAILED AUDIT OBSERVATIONS

### *PROGRAM FUNDING*

Total funding to all municipal delivery agents for delivering the Ontario Works Program must not exceed \$200 million in any year. Funding for the Program has been allocated to each municipal delivery agent for the three program components based on their proportion of the provincial social assistance caseload as of October 1995. Municipal delivery agents may apply

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for funding up to their maximum funding levels but not beyond so that the Ministry can maintain funding equity across municipalities.

At Program maturity in 1998, the Ministry requires that 50% of total funding be used for Employment Support and 25% each for Community Participation and Employment Placement. The Ministry recognized that it may take some time to develop a balanced program and to restructure existing employment programs, and therefore permitted municipal delivery agents to spend more than 50% of their funding in the Employment Support component prior to maturity of the Program.

The costs for Employment Support are shared by the province and municipal delivery agents on an 80/20 basis respectively. Under the Program's funding formula, the province provides municipal delivery agents with up to \$200 per year, prorated on a monthly basis, for each participant in Employment Support.

For Community Participation, the province provides up to \$100 per placement month of 70 hours for each participant plus a \$50 one-time payment for each placement.

For Employment Placement, funding provided to municipal delivery agents is based on social assistance savings generated by the participant being placed in paid employment. One dollar out of every three dollars that otherwise would have been paid in social assistance payments can be provided as a fee to placement agencies. The maximum fee that is payable for a job placement under the Employment Placement component is based on a participant being placed in six months of paid employment and varies according to how much financial assistance the participant would otherwise have received. For example, the maximum fee payable for a single participant with no dependents would be \$1,200, while the maximum for a couple with two children over 13 years of age would be \$2,640.

Municipal delivery agents submit an annual budget request to the Ministry's area offices as part of their proposed annual service agreement. The budget request is based on the Ministry's funding formula and proposed participation targets for each of the three program components, subject to the maximum funding allocation. As a result, funding is directly tied to the amount of service to be provided. If targeted service levels are not achieved, payments are to be recovered after the year end.

In our 1997 report on ministry "Transfer Payment Agency Accountability and Governance," we noted that there was insufficient evidence at that time that the Ministry related the amount of an agency's total funding approval to an assessment of the underlying services to be provided. For example, we noted that the Ministry did not determine the cost per unit of service to permit the comparison of the costs for similar services or the identification of higher cost services that could benefit from a more detailed review.

We are pleased to note that the Ministry's funding mechanism for the Ontario Works Program addressed all of these concerns and commend the Ministry for the very significant improvement in this area.

However, we could not assess the adequacy of the Ministry's procedures for identifying and recovering funding surpluses, if any, because at the time of our audit most municipal delivery agents had not yet completed a financial settlement with the Ministry for the Program's first year.



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## STATUS OF THE ONTARIO WORKS PROGRAM

We were advised by senior ministry staff that when the Ontario Works Program was announced in June 1996, the intent was to have the Program phased in over a two-year period with the Program reaching maturity in 1998.

At the time of our audit in May 1998, all 63 municipal delivery agents participating in the Ontario Works Program had submitted three-year business plans to the Ministry and had obtained approval in principle from the Ministry to proceed with implementation. In addition, the Ministry had entered into annual service contracts including agreed targets and costs with 56 of the 63 municipal delivery agents.

However, the three-year business plans for many of the larger municipal delivery agents were reviewed and approved later in the two-year phase-in period which delayed the implementation of the Program in their areas. For example the City of Toronto, Windsor and the Regional Municipality of Ottawa-Carleton did not implement the Program until the fall of 1997.

Nevertheless, most area offices and municipal delivery agent staff that we contacted indicated that adequate Employment Support services were available in their communities and that program participants were now actively involved in them.

However, participation in the Community Participation component of the Program has been lower than expected. Between the inception of the Program and December 31, 1997, only 4,400 participants were in Community Participation placements, which represented 40% of the municipal delivery agents' agreed-to placement targets totalling 10,750.

We were advised by municipal delivery agents that the reasons for the low placement rates for Community Participation assignments included:

- a lack of community volunteer positions, due to program stipulations that restrict participation to organizations in the non-profit sector and to positions that do not displace an existing paid position; and
- the fact that the skills and experiences of many potential Ontario Works Program participants often did not match the needs of participating organizations.

In addition, municipal delivery agents indicated that developing the Community Participation component was a time-consuming and costly task that required extensive start-up work on their part. Many believed that the funding provided by the Ministry for developing and administering Community Participation was too low, which was another factor contributing to low placement rates.

However, most municipal delivery agents indicated that for the participants that they were able to place in Community Participation assignments, the experience was generally a positive one for both participants and the organizations receiving the participants.

For the Employment Placement component, most of the municipal delivery agents that we contacted indicated that they were either not delivering this component yet or were placing participants themselves because of a lack of interest on the part of private sector employment placement agencies in participating in the Program. We were advised that very few private sector employment placement agencies responded to the municipal delivery agents' request for proposal because most felt that the level of funding offered for the component was not

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adequate to compensate for the work that they would have to perform to place program participants.

We noted that between the inception of the Program and December 31, 1997, 3,005 participants had been involved with Employment Placement activities. This represented only 20% of the municipal delivery agents' agreed-to targets totalling 14,890 participants. In addition, of the 3,005 participants that were involved in Employment Placement activities, only approximately 1,200 had been placed in some form of paid employment.

### **Recommendation**

**The Ministry should review the operation of the Community Participation and Employment Placement components of the Ontario Works Program to determine the necessary changes to increase participation in these components.**

### **Ministry Response**

*We agree. Ontario Works is an evolving program which was designed to build on early experiences. The Ministry is committed to the ongoing review of the program's operation, including the Community Participation and Employment Placement components of the Ontario Works Program and will continue to make the appropriate adjustments to expand opportunities for Ontario Works participants.*

## **PROGRAM REGISTRATION AND PARTICIPATION AGREEMENTS**

At March 31, 1998, Ministry records indicated that there were 232,758 GWA recipients who were required to participate in the Ontario Works Program. Of those, available information indicated that 177,817 (75%) were registered in the Program's Ontario Works Technology information system. Ministry officials advised us that the difference of approximately 55,000 between the required and actual number of registrants was primarily because some municipal delivery agents had not updated their Ontario Works Technology databases and municipal delivery agents representing a total of approximately 23,000, or 12%, of all recipients, were using other information systems for registering participants in the Ontario Works Program.

Every individual registered in the Ontario Works Program must develop a participation agreement with their caseworker. At a minimum, a participation agreement requires a recipient to look for paid employment while collecting social assistance and attend some Employment Support activities. Others may be directed to the Community Participation or Employment Placement components of the Program depending on what the municipal delivery agent caseworker feels is most appropriate for the individual.

Participants are required to sign the participation agreement to acknowledge that they have had the requirements explained to them and that they agree to perform the prescribed activities as a condition of eligibility for financial assistance. The participation agreement is required to be

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updated regularly or as changes in circumstances occur. The agreement serves as a monitoring tool that can be used to support the cancellation or reduction of assistance.

We also noted that the Ministry's records indicated that of the 177,817 GWA recipients registered in the Ontario Works Technology information system, only 150,487 (85%) had active participation agreements. We were advised that the difference was due in large part to delays in inputting information into the Ontario Works Technology information system.

### **Recommendation**

**The Ministry should ensure that all municipal delivery agents update the Ontario Works Technology information system database or equivalent on a timely basis in order to demonstrate that:**

- all social assistance recipients who are required to participate in the Ontario Works Program are in fact registered in the Ontario Works Technology information system or equivalent; and
- all registered recipients have a participation agreement.

### **Ministry Response**

*The Ministry is working closely with Ontario Works delivery agents to ensure that all participants have active participation agreements and that the information system databases are updated on a timely basis.*

## **PROGRAM MONITORING**

### **PROGRAM DEVELOPMENT**

Municipal delivery agents are responsible for developing their own Ontario Works Program within the broad guidelines set by the Ministry. They are required to prepare detailed three-year business plans outlining how they will deliver the Program, including the three mandatory components, for review and approval by the Ministry.

Ontario Works Program guidelines require that the Ministry perform a review of the Program's status four months after its commencement by each municipal delivery agent. This review involved an examination of documentation that was in place for the Program including the procedures manual and the adequacy of training that was provided to municipal delivery agents' staff involved with the Ontario Works Program.

We found that the four-month program reviews for most municipal delivery agents were completed on a timely basis and that they were thorough and well-documented.

### **ONGOING MONITORING**

Municipal delivery agents must provide the Ministry with quarterly reports of expenditures and achievement of service targets specified in the annual service agreements. These reports are required within 30 days of the end of each quarter and 45 days at the end of the year. Of the three area offices we visited, we found that six municipal delivery agents had not submitted the



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required quarterly reports of targeted versus actual activity levels and expenditures, and four had submitted them.

Area office staff are also required to perform a detailed operational Program review for each municipal delivery agent every six months. This review is to consist of:

- examining program documentation such as manuals and guidelines;
- interviewing program staff to assess their level of knowledge and understanding of program requirements; and
- sampling individual participants' case files to ensure the presence of participation agreements and to determine whether caseworkers are properly monitoring participants.

We noted that at May 31, 1998, many area offices were behind on their six-month operational reviews for municipal delivery agents. For example, the required operational reviews of 11 delivery agents had been started but not completed, while for 21 others, the required operational reviews had not been started.

### **Recommendation**

**To improve monitoring of ongoing activities of the Ontario Works Program, the Ministry should ensure that its area office staff receive all required quarterly reports of expenditures and services provided from municipal delivery agents on a timely basis.**

**In addition, area office staff should complete all overdue six-month operational reviews and reports, and complete and report on subsequent six-month operational reviews when they are due.**

### **Ministry Response**

***The Ministry agrees, and all reviews will be completed by September 1998.***

## **MEASURING PROGRAM EFFECTIVENESS**

It is important that reliable outcome information be accumulated and analyzed on an ongoing basis in order that the Ministry can assess the effectiveness of the Program's activities and implement any necessary changes on a timely basis. However, we found that the Ministry did not have the necessary management information to assess the effectiveness of the Ontario Works Program. Instead, the information collected and reported regularly measured program activity levels only, such as the number of registrants with completed participation agreements and the number of participants in Employment Support, Community Participation and Employment Placement activities.

In addition, although the Ministry was able to provide us with information on the amount of time that program participants spent performing Community Participation activities, such information was not reported regularly.



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Other indicators that the Ministry was unable to provide but which would be useful for assessing the Program include:

- the average amount of time, on a weekly or monthly basis, that participants spend in Employment Support and Employment Placement activities. Such information would provide an indication of whether participants are actively involved in these activities of the Program as required; and
- the average length of time that participants have remained in the Employment Support, Community Participation and Employment Placement components. A comparison of such information between municipal delivery agents would be an indicator of relative program efficiency and effectiveness.

We note that it is important that the Ministry have adequate information on the amount of time that participants are spending in Employment Support since the majority of Program activities are concentrated in this component.

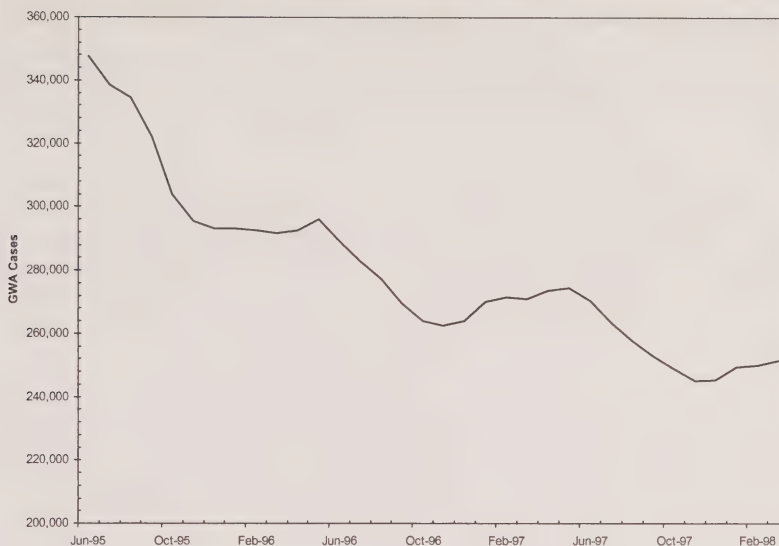
To measure the impact that the Ontario Works Program has had on social assistance rolls, the Ministry needs to enhance its tracking of the number of people leaving these rolls and the specific reasons for their leaving on an ongoing basis. Such information would include:

- the number of people finding employment who attribute their success to their participation in the Ontario Works Program, by nature of work found and whether the work was full-time, part-time or temporary;
- the number of people who previously had to participate in the Program but no longer have to, by reasons;
- the number of people who have moved to other forms of assistance or benefits;
- the number of people leaving social assistance rolls because they have left a municipality or the province; and
- the number of people who have been removed from social assistance due to non-compliance with Ontario Works Program requirements.

The Ministry has informed us that it is in the process of developing an automated database that will have the capability of producing reports with information on the Program's key performance and effectiveness indicators. Such information would be very useful to senior management for monitoring the Program's performance. We noted that some municipal delivery agents already had tools in place to capture this information.

Monthly General Welfare Assistance caseloads for the period June 1995 to March 1998 varied as follows:

### Ontario GWA Caseload June 1995 to March 1998



Source: Ministry of Community and Social Services

It should be noted that the number of GWA cases decreased significantly prior to the implementation of the Ontario Works Program in about October 1996. Most of the decrease after October 1996 related to recipients with mandatory Ontario Works Program requirements.

#### **Recommendation**

**The Ministry should ensure that it captures the necessary management information and produces the appropriate reports with respect to the Ontario Works Program's key performance indicators for use in assessing the Program's effectiveness.**

#### **Ministry Response**

***We agree. The Ministry is currently developing a management reporting capacity based on the Ontario Works information system which will address key performance and effectiveness indicators for the 1998/99 fiscal year. The audit observations will be incorporated in the development of the management reports.***

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## INFORMATION SYSTEMS

The primary computer system intended for use in managing the Ontario Works Program caseload and accumulating management information is Ontario Works Technology. This system was developed for the Ministry by a private sector firm as an interim solution to support the early implementation of Ontario Works. The system cost approximately \$8 million as of March 31, 1998 and was provided to municipal delivery agents for use in the Program.

Ontario Works Technology was designed to maintain information on each program participant including their participation agreement, resume, referral history, program activities completed to date and program costing. In addition, the system was to perform extensive matching of job profiles of client databases and Human Resources Development Canada (HRDC) job banks, capture details of local paid employment, community placements, training and educational opportunities, capture and maintain performance measurement data, and produce monthly corporate reports.

However, at the end of our audit in May 1998, Ontario Works Technology and supporting software required improvements, as the following examples illustrate:

- The system's management reporting features were not yet operational. For example, the system was not able to automatically summarize statistical information collected by municipal delivery agents for roll-up to the Ministry's area offices and head office. Instead, when statistical reports were requested, much of the information had to be collected manually.
- The system's Human Resources Development Canada job-bank-to-participant matching feature was only available in those municipal sites that were co-located with HRDC.
- Program staff in the Ministry's area offices did not have online access to the system because the system was set up only for use by municipal delivery agents' staff with no electronic connections to area offices. Online access by area offices would greatly benefit their program staff in terms of timing and ready access to reports contained on the system, and would provide hands-on ability to review and monitor program targets.
- Caseworkers indicated that they had to spend extensive time re-entering information about participants into the system due to the lack of compatibility between Ontario Works Technology and other ministry information systems. They were concerned that this took away time that could have otherwise been spent assisting Ontario Works participants to progress towards paid employment.
- The software program supplied by the Ministry to municipal delivery agents to extract statistical data from Ontario Works Technology for the quarterly reports required improvements, with necessary revisions being made on an ongoing basis.

Several of the area office staff and municipal delivery agents we visited and surveyed expressed concerns about the reliability of data generated from Ontario Works Technology. Some municipal delivery agents used their own systems to accumulate and report program data because of problems they were experiencing with the use of the Ontario Works Technology system.

The lack of compatibility and integration of computer systems used could affect data integrity, especially if program data had to be entered or removed from the systems more than once,

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thus increasing the likelihood of inputting and deletion errors. Use of different systems by municipalities to collect and report program data would also affect the consistency of data. The fact that the systems were new and unfamiliar to program staff, and often updated and revised, also contributed to poor data integrity.

Most of the above noted concerns have been brought to the attention of the Ministry's information technology staff at head office for corrective action.

### **Recommendation**

**The Ministry should ensure that the available information systems are adequately meeting the needs of the Ontario Works Program and the municipal delivery agents.**

### ***Ministry Response***

***The Ministry is continuing to make improvements to the interim Ontario Works information system, pending the implementation of the longer term information system.***

**3.02**



# Acquisition and Management of Elementary and Secondary School Facilities

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Elementary and secondary education is a shared responsibility between the Minister of Education and Training and the province's 72 district school boards. Under the *Education Act*, the Minister has broad powers to establish education and school board funding policies and therefore has overall responsibility for excellence in student achievement and the effective and efficient use of public funding. The Ministry has established two Elementary/Secondary Divisions, one for Policy and the other for Operations and French Language Education. These Divisions carry out the policy development and funding responsibilities, respectively. School boards are responsible for the prudent use of their funding and have specific powers and duties under the Act, including providing, equipping and maintaining schools.

The management of school facilities is a significant undertaking. According to ministry records, as of March 31, 1998 school boards operated 5,100 schools. These buildings represent some 250 million square feet of floor space and have a replacement cost of approximately \$26 billion. School boards spend about \$1.3 billion annually to operate their school buildings.

Until recently, project-specific capital grants from the Ministry funded on average about two thirds of the cost of new school construction, major renewals and land purchases. School boards funded the remaining cost from local revenues. The last such grants were approved by the Ministry on January 1, 1997 and totalled about \$650 million.

On March 25, 1998, the Minister announced a new "student focused" funding model to come into effect on September 1, 1998. The new model has three funding categories: a foundation grant that is intended to provide for the core education of every student; nine special purpose grants intended to recognize the different circumstances faced by students and school boards; and a pupil accommodation grant that is intended to pay for heating, lighting and maintenance costs and for the construction or leasing of new schools.

According to the Ministry's announcement, the pupil accommodation grant will consist of separate components for new pupil places, school renewal and school operations based on the principles cited below:

- School boards are responsible for providing schools and facilities for students and for operating and maintaining schools as prudently as possible.
- The Ministry is responsible for monitoring school board actions to ensure accountability to the taxpayers and for providing school boards with adequate financial resources and the flexibility necessary to meet their responsibilities.
- School boards will be provided with grants for new pupil places on a per-pupil basis to finance the cost of constructing, furnishing and equipping new schools only if they can demonstrate the effective use of all existing school buildings and the inability to accommodate more pupils without additional space.
- School boards will be required to place the grants for new pupil places and for school renewal in accommodation reserve funds. These funds can only be used to repair or renovate existing schools, or to acquire new facilities to accommodate students according to the board's own priorities. Reserve funds may be carried forward for future use in acquiring or renewing schools.
- All school boards will receive per-pupil grants which are intended to cover the costs of operating (cleaning, heating, lighting and maintaining) schools. School boards may reallocate any savings achieved in school operation costs to other priorities. Boards will be required to report annually on spending for school operations and renewal.

The key factors that will determine the pupil accommodation grant for each school board are existing capacity, enrolment, the age of school buildings and their location. For the school year commencing September 1, 1998, the pupil accommodation grants will total over \$1.7 billion.

## OBJECTIVE AND SCOPE OF REVIEW

Given the significant changes introduced by the Ministry in March 1998, the magnitude and complexity of the school facility acquisition and management activities of school boards, and our legislated inspection audit mandate which restricts access to school board accounting records only, we limited our work to a review of the relevant systems and procedures of the Ministry and of selected school boards.

Our objective was to assess whether satisfactory systems and procedures had been established for the acquisition and management of school facilities, including compliance with related regulations and policies, and whether information systems provided adequate support for management control, decision making and performance reporting. The criteria on which our assessment was based were agreed to by the Ministry's senior management and that of the six school boards that we visited and included criteria for systems and procedures for:

- efficient use of existing school space;
- efficient and economical planning, design and construction of new schools; and
- cost-effective maintenance and repair of schools.

Our review consisted primarily of inquiries and discussions with school board and ministry officials and analyses of information that they provided. It included only limited examination of

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transactions or systems and therefore was not intended to provide a high level of assurance that their systems were working as intended.

Our primary focus was to identify where systems and procedures could be improved and where school boards had implemented better systems and procedures for acquiring and managing their school facilities. A summary of better systems and procedures that were identified was provided in a separate letter to ministry senior management. In making our recommendations for improvement, we also considered the extent to which the changes planned by the Ministry might address identified deficiencies.

Our review was conducted in accordance with professional standards established by the Canadian Institute of Chartered Accountants for assurance engagements, encompassing value for money and compliance, and accordingly included such procedures as we considered necessary in the circumstances. Specifically, we visited the Ministry's head office as well as six large urban school boards that are responsible for the management of over 800 schools. Our review was substantially completed by May 1998.

The Ministry's Audit, Compliance and Evaluation Branch had not done any recent work that was relevant to our review and we therefore did not rely on its work.

## OVERALL REVIEW CONCLUSIONS

At the time of our review, the Ministry and the school boards we visited did not have satisfactory systems and procedures for the acquisition and management of school facilities. The new funding model for pupil accommodation will encourage boards to more prudently manage their facilities and resources and will require the boards to publicly demonstrate that they have done so. However, to help ensure that school boards implement necessary facility management systems and procedures in the most economical and efficient way possible, the Ministry needed to:

- establish procedures to verify the capacity of existing schools and promote experimentation by school boards with various semester, scheduling and other options that make better use of existing capacity in order to reduce the demand for new pupil places;
- provide further guidance to boards on the information needed to identify and dispose of surplus schools more expeditiously, and require boards to justify decisions to build new schools rather than purchase available surplus schools from neighbouring boards;
- coordinate and support boards in implementing, where required, the information systems necessary for ensuring and demonstrating that the schools and the resources devoted to operating and maintaining them have been well managed; and
- provide guidance to trustees in overseeing facility management activities and make appropriate arrangements for the verification of accountability information that boards are required to provide to the Ministry and the public.

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# DETAILED REVIEW OBSERVATIONS

## USE OF EXISTING FACILITIES

Schools are costly to build and maintain. The recognized cost to build and equip new pupil places under the new funding formula will be \$11,718 per elementary pupil place and \$16,484 per secondary pupil place. The operating, maintenance and renewal grant will be approximately \$600 per pupil for elementary schools and \$780 for secondary schools. In addition, many schools are located on valuable property and thus represent a substantial taxpayer investment in land.

A 1996 study estimated that, in the absence of changes, the province would require 289 new schools by 2001 at a cost of \$2.2 billion. In view of the magnitude of pupil accommodation costs, we expected policies and systems to be in place to promote the economical and efficient use of existing capacity.

## SCHOOL CAPACITY

Under the new funding system, school boards will be required to demonstrate to the Ministry that existing facilities are fully used before building or leasing new schools. For this requirement to be enforceable, the Ministry and the school boards will have to agree on the number of pupils that each school can accommodate. While determining school capacity may appear to be a simple matter, it can be very complex in practice because of a number of factors. For example:

- General purpose classrooms have a greater capacity than special purpose classrooms, such as those used for science, technical or music programs.
- The *Education Act* restricts class sizes to eight for certain special education pupils.
- Each of the school boards that we visited calculated a “program rated capacity” for all its schools that reflected each board’s unique program delivery requirements and included any constraints imposed by their individual collective bargaining agreements.

Given the many factors to be considered, a committee consisting of ministry and school board staff has been established to decide how capacity will be determined. In addition, there will still be a need to verify, at least on a test basis, the accuracy of the school capacity information submitted to the Ministry for use in calculating the pupil accommodation grant entitlements of the school boards.

## OPTIONS FOR INCREASING CAPACITY

The new accommodation funding formula assumes the traditional attendance model of five hours of instruction per day from September to June. Almost all boards and schools operate this way. However, the school boards that we visited had not significantly experimented with the various options for increasing school capacity in order to defer the need for new pupil places or reduce the use of portables. For example:

- A 1996 study commissioned by the Ministry indicated that the use of semester options could increase the capacity of existing schools by 25% to 50%, yet only one of the boards that we visited had implemented a three-semester, full-year schedule and then at only one school.



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- One board estimated that the capacity of secondary schools could be increased by over 50% by extending the hours of operation, but had not experimented with this option.
  - Some boards used different grade configurations, such as kindergarten to grade 6 and grades 7 to 13, at some of their schools rather than building junior high schools. However, none of the boards that we visited had reduced the use of portables by shifting grades 7 and/or 8 between elementary and secondary schools in order to address imbalances in utilization.
  - Most boards had not implemented systems to effectively monitor the use of classrooms and to link that information to their timetabling, particularly for secondary schools. The Ministry's 1996 study noted that one board had reviewed the use of classrooms and was able to increase the capacity of its existing schools by 3,000 pupil places.

Because pupil accommodation grants continue to be based on traditional attendance models, school boards could implement various options that increase the capacity and use of their existing facilities and thereby provide significant funds for addressing other accommodation priorities.

## **SURPLUS SCHOOLS**

During the 1960s and early 1970s, a number of areas experienced rapid enrolment growth which led to the construction of a large number of schools. Enrolments declined from the mid-1970s to the mid-1980s as the local populations matured, leaving the school boards with significant surplus space in these areas. We found that the boards that we visited had not established effective procedures to identify long-term reductions in their space requirements, to consolidate enrolments at certain schools, or to close and dispose of surplus schools in a timely manner. However, within the last two years, two of the boards had taken steps to address these issues and had conducted special studies of school utilization.

Enrolment data at one board indicated that 16 of the board's 84 schools currently in use were operating at less than 50% of capacity. The special study identified 6 of these schools as being potentially surplus and suggested that they be considered for disposition. However, all 16 schools were still in use 20 months after the study. The second board's special study, completed in May 1997, indicated that 25 of the board's 132 schools currently in use were operating at less than 50% of capacity, but did not suggest which of those schools were potentially surplus. The board was still in the process of determining which schools should be designated as surplus.

In addition to the 216 schools currently in use, the two school boards also had 35 schools which they had closed during the 1980s. The boards' special studies determined that these schools, which were either being used for administrative purposes or being leased to other boards or private schools, were also potentially surplus to the boards' needs.

Because there are a number of fixed operating costs involved, the per-pupil cost of operating schools increases as enrolment declines. In cases such as those mentioned above where enrolments are less than 50% of capacity, the increase in per-pupil cost is significant. For example, the first of the above special studies included a detailed analysis of the financial impact of closing the six schools identified as being potentially surplus to the board's needs. The study identified net annual savings of approximately \$1.5 million, or more than \$1,300 per student, resulting from the elimination of the fixed operating costs for the six closed schools offset by the additional costs at the schools receiving the displaced students. In addition, the

board could benefit from the sale of the six surplus properties which had an estimated market value of more than \$5 million.

The new funding model removes the ability of boards to cover the increased per-pupil cost of operating and maintaining surplus schools through local taxes. Also, boards will not qualify for grants for new pupil places in growing districts as long as surplus capacity exists elsewhere in their jurisdiction. These changes are intended to encourage boards to review school use and close surplus schools more expeditiously.

Since 1981 the Ministry has required boards to develop and publish school closure policies. Board policies must specify: how and when schools will be considered for closure; how community input will be obtained; the minimum time a board must take before reaching a decision; and the kinds of impact analyses that must be publicly presented. However, the boards are not required to decide on school closures in a timely manner. Moreover, although the impacts on the affected community may be fully presented, other broader impacts on a board, such as the inability to apply savings and sale proceeds to meet the demand for new schools in growth areas, may not be presented.

An *Education Act* regulation requires boards to offer closed surplus schools to their coterminous board and to other public sector bodies before selling to others. However, the Ministry does not have procedures to help ensure that neighbouring boards purchase surplus schools in those situations where it is more cost effective than constructing a new school.

### **Recommendation**

**To promote the efficient and economical use of school facilities, the Ministry should:**

- establish procedures to verify the existing capacity of schools;
- encourage and assist school boards to evaluate the feasibility of various approaches to increasing capacity and improving the utilization of facilities;
- provide further guidance to boards to help them identify and dispose of surplus schools more expeditiously; and
- require boards to justify decisions to build new schools rather than purchase available surplus schools from neighbouring boards.

### **Ministry Response**

- *A Pupil Accommodation Review Committee, which is composed of ministry and school board staff, is currently reviewing the accuracy of the Facilities Inventory System. School capacity information submitted by school boards is being compared to the design drawings for each school. It is expected that boards will be advised what their capacities are by July 1998. It is the Ministry's intention to develop an ongoing process to ensure that school capacity information is up-to-date and accurate.*

- *The block grant approach to providing grants for new pupil places will encourage school boards to find the most effective and efficient approaches to school accommodation as it will allow them to retain any savings generated by implementing changes that improve their utilization of existing schools. To encourage and assist school boards in evaluating the feasibility of alternative approaches to improve utilization, the Pupil Accommodation Review Committee will coordinate information sharing and research.*
- *Boards are expected to implement pupil accommodation review policies by September 30, 1998, and finalize school consolidation decisions before December 31, 1998 so that decisions to consolidate schools can become effective for the 1999/2000 academic year. Boards will have an opportunity to reduce the capacity figures used in the determination of the Grants for New Pupil Places for 1999/2000 and subsequent years by disposing of schools which they have identified as being surplus to their needs by December 31, 1998.*
- *The Pupil Accommodation Review Committee will also review and advise the Ministry on the need for boards to justify the construction of a new school rather than purchase an available school from a coterminous board or a neighbouring board.*

## LONG-TERM PLANNING FOR ECONOMIC USE OF FACILITIES

The number of pupils attending a school fluctuates over time as the local population ages, regenerates and ages again. For example, at the school boards we visited, some schools serving growing neighborhoods had many portables which resulted in utilization rates in excess of 150% of permanent school capacity, whereas some serving mature communities had utilization rates of less than 50% of permanent capacity.

Ideally, new schools are planned to accommodate a sustainable level of enrolment so that overcrowding or under-utilization of space is minimized over the lifetime of the school. Enrolment peaks are accommodated with temporary space options such as portables. This approach to planning attempts to avoid the significant costs of operating under-utilized schools.

Prior to the new funding formula, the balance between permanent and temporary pupil accommodation had been determined primarily by the availability of capital grants from the Ministry to build new schools. For example, if grants were constrained, the use of portables increased in growth areas.

Under the new funding formula, the Ministry provides grants to accommodate enrolment growth in excess of a board's capacity. The annual grants are intended to be sufficient to amortize loan principal and interest over a 25-year period. However, the grants are recalculated every year and are reduced or eliminated if enrolment declines. Thus, boards face significant financial consequences if enrolments decline below the level incorporated into the decision to build a new school.



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To minimize this risk and to establish an appropriate balance between permanent and temporary pupil accommodation, the boards require reliable information about the impacts of portable use and future enrolments. More specifically:

- There was agreement among the boards that we visited that high utilization rates were not desirable from a learning perspective due to the stress resulting from overcrowding. However, they were not aware of any studies that had identified the point at which overcrowding would cause a decline in student achievement.
- In order to identify the optimum balance, from an economic perspective, between using portables during enrolment peaks and having empty classrooms during troughs, boards require reliable information about the relative costs of classrooms and portables. Although the boards that we visited had information about the initial cost of portables and classrooms, none of the boards had analyzed the differences in the operating costs of its classrooms and portables.
- Although the planning departments of the boards that we visited prepared five-year enrolment forecasts to assist in accommodation decisions, there was general agreement that many factors, such as changing fertility and immigration rates, limited the reliability of long-term forecasts. Research into methods of improving the reliability of long-term enrolment forecasts would help to reduce the risk inherent in school investment decisions.

Because all boards and the Ministry would benefit from research on these issues, it would not represent an economic use of resources for them to perform it individually. There is a role for the Ministry to coordinate research efforts and determine whether reliable information can be produced and, if so, whether its impact on the long-term costs of providing pupil accommodation justify the cost of producing it.

### **Recommendation**

**To help ensure that pupil accommodation decisions represent the best long-term value, the Ministry should coordinate research on:**

- the relationship, if any, between school utilization rates and student achievement;
- the relative operating costs of permanent classrooms and portables; and
- the methods for preparing reliable long-term enrolment forecasts.

### **Ministry Response**

***The Pupil Accommodation Review Committee will coordinate research and information sharing in these areas. To the extent that research funding is available, the Ministry will support commissioning research.***



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## DEVELOPMENT PARTNERSHIPS

A 1996 study sponsored by the Ministry indicated that the use of development partnerships could achieve significant savings in both the initial capital cost of new facilities and the ongoing operating costs. An example of such a partnership where an independent analysis of the savings achieved has recently been done is the Humberwood Centre that opened in Toronto in 1996. The project has four partners: the public school board; the separate school board; the municipal library board; and the City's parks and recreation services department. The following table compares the costs incurred by the school board partners to the Ministry's new funding formula benchmarks.

**Comparison of Joint Development Costs and Ministry Benchmarks**

	Humberwood	Formula	Savings
Construction Cost per Pupil	\$7,232	\$9,132	20.8%
Total Project Cost per Pupil <sup>1</sup>	\$9,355	\$11,718	20.2%
Operating Costs	\$4.62/sq. ft.	\$5.20/sq. ft.	11.2%
Site Area (acres) <sup>2</sup>	10	13.5	25.9%

<sup>1</sup> Excluding the cost of the land.

<sup>2</sup> The 10 acres excludes 1.5 acres attributed to the municipality based on cost-sharing percentages.

*Sources: Ministry of Education and Training,  
Report of the Expert Panel on the Pupil Accommodation Grant and  
Review of the Humberwood Centre Feasibility Study*

In addition to the savings already identified, the boards have agreed to reallocate classrooms and costs as enrolments fluctuate. This arrangement will delay or eliminate the need for portables to accommodate the rapid enrolment growth forecast for the public junior high school because the separate elementary school will have surplus capacity for the next several years.

The final report of the Ontario School Board Reduction Task Force, also in 1996, stated that "the province has seen little willingness on the part of most boards to capitalize on opportunities for savings from cooperatives and consortia between neighbouring school boards." Although five of the six boards we visited either had entered into or were planning development partnerships, the majority of new pupil places were still being constructed independently by each board.

The boards we visited were unable to demonstrate that development partnerships were entered into whenever feasible. Although coterminous boards were aware of each other's development plans, their planning staffs did not meet periodically to review these plans in order to identify partnership opportunities, nor did they meet with their municipal counterparts for this purpose. Opportunities to partner with contiguous boards along border areas had also not been considered.

The boards we visited stated that joint developments have been impeded by the fact that funding was received at different times and from different sources. Parties which had received funding approval were typically unwilling to delay their projects until potential partners had

received their funding. The new funding formula removes the timing of funding as a barrier to partnerships between coterminous boards because both will receive funding at the same time if they qualify for grants for new pupil places. As well, there will be more incentive for boards to enter into partnerships because any cost savings achieved will be retained by the boards.

There may also be opportunities for boards to share facilities with other public entities and private sector organizations. However, none of the boards that we visited had established procedures for identifying potential partners or criteria for evaluating their suitability.

There were also no procedures to ensure that all provincial capital grants to public entities include requirements or incentives for cooperation and development partnerships. For example, although some municipal library boards provide library services to schools, most schools operate their own libraries regardless of their proximity to municipal libraries (even where they are both in the same building, as at Humberwood).

### Recommendation

To help ensure that school boards take advantage of opportunities to reduce costs through development partnerships, the Ministry should:

- require boards to summarize and report on their efforts to find partners for each new school development and, where independent developments take place, to explain why a partnership is not feasible; and
- encourage other ministries to include conditions or incentives in their grant programs requiring recipients to enter into cooperative or development partnerships with school boards where feasible.

### Ministry Response

- *Although school boards build replacement schools from time to time, the majority of development projects involve new schools for which sites must be purchased. In order to fund the purchase of land for new schools that are needed as a result of new residential development, boards must pass an education development charges by-law. The process of passing a by-law requires boards to prepare a background study that includes their policy regarding possible cooperative arrangements with municipalities, other school boards or other public or private sector agencies, for the provision of new schools. In addition, boards must describe in subsequent background studies how their policy was implemented or why it was not implemented.*

*The Accountability Framework will also require boards to report the information that they included in their background studies. The Pupil Accommodation Review Committee will review and advise the Ministry on how well the requirements under the Education Development Charges Regulation are working before the Ministry imposes additional reporting requirements on school boards.*

- ***The Ministry of Education and Training has in the past encouraged other ministries to support cooperative or development partnerships with school boards and will continue to do so.***

## **LIFE-CYCLE COSTING**

School facilities represent long-term investments for school boards. We were informed that the expected service life of a school is approximately 50 years.

The cost of ownership of a building is the total of all expenditures made to operate and maintain it over the course of its service lifetime, including: planning, design and construction; financing; operating, maintenance and renewal; and disposal. Due to the long service lives of schools the majority of the costs of ownership are incurred after construction. For example, a school board in another jurisdiction determined that the initial costs of a school, including financing, represented less than 30% of the cost of ownership.

In order to manage their buildings in an economical manner, boards must employ systems and procedures that focus on minimizing the total cost of ownership and not just on minimizing initial capital expenditures. One such procedure is life-cycle costing.

Life-cycle costing is a process of budgeting for the total cost of a building over its expected useful life. Costs are estimated for each year of service from the planning stage through to eventual disposal. Actual results are also recorded in order to improve cost estimates for future projects and to provide information for deciding on the repair or replacement of existing equipment and facilities.

The Ministry's funding formula announcement specifically encourages boards to take a life-cycle approach to their spending on accommodation. However, with the exception of some energy conservation projects, boards have focused more on minimizing capital expenditures than on making investments to reduce future operating costs.

School boards have a variety of building materials and equipment from which to choose for both construction and replacement purposes. Such materials and equipment vary in price and durability, as do the costs of cleaning, operating and maintaining them. Where new technology is involved there is also a risk that the items purchased may not perform as expected. However, neither the boards we visited nor the Ministry had collected data regarding the performance of various materials and equipment. In addition, the boards had not developed procedures for identifying the best long-term value and preparing proper business cases to support their purchase decisions.

Boards must also take into account their borrowing costs and the expected useful life of buildings in determining which choices represent the best value over the long term.

### **Recommendation**

**To assist boards to better manage pupil accommodation costs over the long term, the Ministry should:**

- **help boards to evaluate systems that support a life-cycle approach to accommodation spending decisions and to share implementation and maintenance experiences with each other; and**



- coordinate the collection and sharing of performance data for materials and equipment and provide guidance to boards regarding the preparation of business case analyses to support major purchase decisions.

### **Ministry Response**

*The Pupil Accommodation Review Committee will be asked to provide advice on approaches to evaluating systems that support life-cycle cost analysis. The Committee will also be asked to provide methods of coordinating the sharing of data on performance of materials, business cases, worked examples and other analytical tools to help boards. From this information, best practices will be identified and shared province-wide via the Ministry's website. School boards will be encouraged to adopt these practices.*

**3.03**

## **MONITORING OPERATING COSTS AND RESULTS**

According to the Ministry's most recent *Report on School Board Spending*, school boards had budgeted to spend \$1.3 billion on custodial and maintenance services in 1997. These expenditures consisted of salaries and benefits for custodial and maintenance staff (58%), utilities (20%), supplies (14%) and contracted services (8%).

The 1996 *Report on School Board Spending* indicated that there were significant differences among boards in their spending per pupil. For example, at the boards we visited, the custodial and maintenance expenditures ranged from \$576 to \$1,052 per pupil. A survey conducted by a school board association in 1996 found that these expenditures ranged from \$2.39 to \$4.66 per square foot at the 37 boards that responded.

Explanations for these large variances in spending have been difficult to obtain because of differences in school utilization rates, building ages, service levels and accounting practices which limit the comparability of school operating costs within and among school boards. For example, none of the boards we visited had identified the levels of service that were required to meet health, safety and program objectives in order to determine budget and staffing requirements. Instead, the frequency of various cleaning and routine maintenance activities was determined by the availability of funds and thus fluctuated from year to year. Without relating service levels to costs, it cannot be determined whether lower spending is due to more efficient practices or less service.

In addition to the lack of service level information, the boards that we visited lacked detailed information about their operating costs. For example, none of these boards had systems in place to segregate custodial spending by task, such as cleaning windows or floors, or to allocate to each repair job the maintenance expenditures, such as labour, equipment and supervision costs, incurred by in-house trades staff.

In conjunction with the new funding arrangements, the Ministry has developed an accountability framework for pupil accommodation grants. In addition to requiring boards to publish custodial and maintenance expenditures for each school in an annual report, the



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Ministry plans a number of steps to improve the comparability of the reported information. For example, the Ministry will introduce a standard chart of accounts with clearer definitions to help ensure that school boards record expenditures in a consistent manner. Boards will also be required to report building ages and utilization statistics in their annual reports.

Although the proposed reporting requirements will enable boards to compare operating costs on a per square foot or per pupil basis to other boards, they will still not have the information needed to effectively monitor their performance or to identify necessary corrective actions when performance deficiencies are detected. Specifically, they will still be unable to:

- compare the cost of performing specific services and repairs internally to the cost of contracting them out;
- identify the least-cost alternatives for accomplishing service level and quality objectives;
- allocate costs to programs and other activities and identify those which do not produce sufficient benefits to justify their cost;
- monitor the incremental costs incurred by community use of board facilities; and
- hold managers and staff accountable for providing defined levels of service and quality economically and efficiently.

Several of the boards that we visited had taken steps to acquire and implement software that addresses some of the deficiencies in their facility management information; however, few resources had been allocated or deadlines established for implementing their information system improvements. Although the implementation of these information systems requires a substantial investment, funding for such expenditures will be constrained under the new funding formula because they will be classified as “out-of-classroom” expenditures. We therefore believe that there is a role for the Ministry to play in assisting school boards to implement the systems needed to provide the information required to manage and report on performance. Such assistance could include the identification of best practices, the coordination of software evaluation and acquisition, and financial support for pilot projects and/or implementation teams.

### **Recommendation**

**To ensure that boards acquire and implement the information systems needed to manage their facilities and costs and to report on results, the Ministry should:**

- **provide guidance to boards regarding the information and analysis required for effective facility management and related results reporting;**
- **establish a mechanism for enabling boards, which have implemented systems to address facility management information needs, to share their experiences with other boards; and**
- **examine options to minimize the cost of the substantial investment in management information systems that boards must make.**

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### **Ministry Response**

***The Pupil Accommodation Review Committee will be asked to develop approaches to help ensure that boards review, assess, and acquire the information systems that are needed to manage their facilities and report on the results. The Accountability Framework will include requirements to share information with respect to the systems used for facility management, and the Ministry will identify and share the best practices through its website.***

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## **3.03**

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### **MAINTENANCE EXPENDITURES**

Building components and equipment deteriorate with the passage of time and thus require ongoing maintenance, repairs and periodic replacement. The Ministry expects school renewal grants to total \$193.6 million in the 1998/99 school year.

An economical and efficient program to manage maintenance and renewal expenditures includes having reliable information on the condition of properties and the estimated cost of required repairs. Such information enables management to make expenditures on a planned and preventive basis and thereby reduce the frequency and costs of emergency repairs.

The failure to perform maintenance activities when required can result in additional costs in the future. For example, at one board a roof repair that would have cost \$100,000 in 1991 was deferred until 1998 and will cost \$800,000 because of additional damage caused by the lack of preventive maintenance. In another case, the board did not fund the resurfacing of paved areas that would have cost \$16,000 in 1990 and extended the life of the surface for as much as 15 years. In 1995, the area had to be completely repaved at a cost of \$35,000.

Although most of the boards that we visited had periodically inspected the condition of major mechanical and electrical equipment and roofs, none had established a condition inspection program for buildings and interior finishes. In 1995 one of these boards had engaged an engineering firm to inspect buildings on a one-time basis but only for the 71 schools that were at least 30 years old (63% of the board's schools). The firm recommended that the board spend \$33 million over five years to preserve the condition of these schools.

Three other boards we visited had prepared internal estimates of their deferred maintenance that were based on a combination of accepted formulas for maintenance spending and a knowledge of specific problems rather than on an inspection of each building. In total, four of the boards we visited, representing 12% of the province's schools, had identified deferred maintenance of more than \$200 million that needs to be addressed in future years.

The new pupil accommodation grants and reserve funds provide school boards with predictable funding each year and require funds provided for major repairs or renovations to existing schools or to construct new schools to be used solely for those purposes. Plant management staff at the boards we visited stated that these features of the funding model are a significant improvement over previous funding arrangements because budgets for repairs had always been among the first to be cut by trustees facing increasing pressure to reduce spending. This factor had contributed greatly to the increases in deferred maintenance that the boards were experiencing.

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One reason for the underfunding of maintenance at the school boards we visited was that maintenance management were unable to convincingly present their cases for increased maintenance spending to the trustees because of the absence of reliable life-cycle and condition-assessment information. As well, without this information the Ministry's grant levels cannot be supported by analyses demonstrating that school buildings can be cost-effectively maintained within the benchmark level of spending. This life-cycle and condition-assessment information is also necessary for boards to be able to meaningfully compare their repair and maintenance expenditures to those of other school boards.

### **Recommendation**

**To help ensure that school boards do not continue to defer needed maintenance, the Ministry should:**

- **require the boards to conduct objective, reliable condition assessments of each school on a periodic basis and estimate the cost of needed repairs;**
- **require the boards to include such information in reports to the trustees and the Ministry; and**
- **monitor grant levels to assist boards to manage their assets prudently over the long term.**

### **Ministry Response**

*The Pupil Accommodation Review Committee will be asked to provide advice on the components of a long-term plan that will be included as a requirement of the Accountability Framework. The plan will include condition assessments and methods of evaluating: the amounts made available for renovation/repair and maintenance work to be done over a five-year period; the types of repairs, renovations and maintenance along with estimated costs and anticipated benefits of the work to be done; the adequacy of the amounts proposed for renewal; options that will include the costs of delaying expenditures; and how the board will know that it is achieving results by developing approaches to ensure that the Facilities Management function is accountable to the trustees.*

*The Ministry will, through its Accountability Framework, be monitoring boards' use of ministry grants. This information will be used in assessing the overall efficiency of the model in meeting student needs.*

## **DOCUMENTATION OF OBJECTIVES AND PROCEDURES**

Given the number and complexity of activities associated with the acquisition and management of school board facilities, prudent operating practice requires that service objectives and the procedures followed to achieve them be documented. However, with the



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exception of the maintenance services division at one of the boards we visited, the departments responsible for the activities we reviewed had not documented such objectives and procedures. For example, criteria and procedures were not documented for: pre-qualifying architects and general contractors; inspecting and evaluating the performance of in-house staff and outside contractors; and monitoring and managing custodial and maintenance operations.

Documenting objectives and procedures would help school boards to avoid the loss of knowledge that otherwise occurs when individuals leave. This is now a matter of particular concern as a number of boards expect to experience significant staff turnover due to early retirement and staff reduction programs arising from amalgamations and other reform initiatives.

In addition to helping maintain service continuity, documentation also assists managers to identify: the resources required to perform each procedure; procedures that are too costly relative to their contribution to achieving operating objectives; and opportunities to achieve objectives at less cost through automation. For example, the board that had completed documenting maintenance services procedures in the spring of 1997 was able to identify service improvements and make changes that are expected to save more than \$274,000 annually.

### **Recommendation**

**To assist school boards in maintaining service continuity and evaluating the efficiency, economy and effectiveness of operating procedures, the Ministry should:**

- **encourage school boards to document their objectives and the procedures to achieve them; and**
- **support efforts to share ideas and conduct pilot projects that reduce costs and/or improve services.**

### **Ministry Response**

- ***The Pupil Accommodation Review Committee will, as part of its development of the Accountability Framework, be developing measures that will assist school boards to document their objectives and evaluate the effectiveness and efficiency of their operating procedures. The Ministry will also monitor board actions as part of the requirements of the Accountability Framework and the Facilities Inventory System.***
- ***The Pupil Accommodation Review Committee will coordinate sharing of information, ideas and board research activities to avoid duplication of effort.***

## **THE ACCOUNTABILITY FRAMEWORK**

To strengthen accountability the Ministry intends to require each school board to produce an annual report that will include, for each of the board's schools, information on:



- the site size, age, capacity, enrolment and after-hours use;
- facility operating costs such as heating, lighting, cleaning, general maintenance and repairs;
- the cost and nature of major renewal projects; and
- the cost, design, capacity and financing of new schools or additions.

The Ministry intends to summarize and publish this detailed information in an annual report that will permit the school boards and the Ministry to compare results among the boards. Also, the school capacity, enrolment and building age data will be used by the Ministry to determine the amount of pupil accommodation grants for the boards.

Although this reporting framework will provide much needed information, the Ministry and school boards will still be unable to conclude on the relative performance of school boards in managing their pupil accommodation expenditures until the information gaps discussed earlier in this report have been addressed. For example, information about service levels, building condition, and deferred maintenance is needed to interpret differences in repair and maintenance costs.

Also, there is a need to establish appropriate verification arrangements that provide trustees and the Ministry with assurances that:

- reported grant determination and performance information is reliable;
- grants for new schools and school renewal have been spent for the purposes intended; and
- policies that they have established have been complied with.

Trustees are accountable to the communities that elected them and to the Ministry with respect to accommodating their students and operating and maintaining the facilities in an efficient and effective manner. The significant changes to school board funding and governance place new expectations on trustees. Consequently, in its December 1997 report, the Education Improvement Commission recommended a new model of governance for trustees as well as adequate provision for the costs incurred in the orientation and training of trustees. Such orientation and training need to include the trustees' policy-setting and monitoring responsibilities as they relate to facility management activities.

### **Recommendation**

**To help ensure that the facilities management information produced by school boards is reliable and to assist trustees in meeting their responsibilities for setting policies, monitoring performance and taking corrective action, the Ministry should:**

- **establish procedures for independently verifying school board grant determination and performance information; and**
- **provide trustees with best practices and training materials on governance that include their role in overseeing facility management activities.**

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**Ministry Response**

- *School board performance information will be evaluated by the Ministry under its Accountability Framework. The Pupil Accommodation Review Committee will develop and advise the Ministry on procedures to ensure that the performance information and grant uses and amounts are independently verified.*
- *The Ministry will seek support from the trustees' associations to provide appropriate training material on their role in overseeing the facilities management function.*

*School board staff and trustees will have access to all ministry information regarding the pupil accommodation grant formula and the best practices resulting from the implementation of the model by school boards.*

# Land Transfer Tax Program

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The *Land Transfer Tax Act* requires that purchasers pay a tax when an interest in ownership of land is transferred in Ontario. The tax is based on the value of consideration (usually an amount of money) paid by the purchaser as sworn in an affidavit prepared by the purchaser's lawyer. Generally, the tax is paid when the land transfer is registered at one of the land registry offices operated by the Ministry of Consumer and Commercial Relations under the terms of a Memorandum of Understanding entered into with the Ministry of Finance.

The rate of tax varies from 0.5% of the value of consideration below \$55,000 up to 1.5% on amounts exceeding \$250,000. For single family residences only, the rate of tax increases to 2% on amounts exceeding \$400,000. Land transfer tax is not generally payable when a property is transferred as a gift or inheritance. In addition, land transfer tax may be waived or refunded in whole or in part for first-time home buyers who meet prescribed conditions.

For the 1997/98 fiscal year, approximately 345,000 transfers in interest in land were reported, which resulted in the collection of \$544 million in land transfer tax. For the same year, approximately 20,000 purchasers received refunds or exemptions having a total value of \$2.8 million and \$21.3 million respectively.

The Land Transfer Tax Section of the Ministry of Finance's Motor Fuels and Tobacco Tax Branch has overall responsibility for the administration of the Land Transfer Tax program. This responsibility includes reviewing and auditing selected land transfer tax transactions, including those processed by land registry offices, as well as establishing taxpayer eligibility for land transfer tax refunds or exemptions. The Land Transfer Tax Section is supported in its administration of the program by the Ministry's Collection and Tax Appeals Branches and Property Assessment Division. At the time of our audit in early 1998, a total of 19 staff were assigned to the Land Transfer Tax Section.

## OBJECTIVE AND SCOPE

The objective of our audit was to assess whether the Ministry had appropriate policies and procedures in place to ensure that the correct amount of land transfer tax was being collected, refunded or exempted in accordance with statutory requirements.

Our audit was conducted in accordance with professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

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The scope of our work included a review of the Ministry's Motor Fuels and Tobacco Tax (MFTT) Branch's administrative policies and procedures as well as a representative sample of audit files. We also held in-depth interviews with appropriate staff. Given the significant involvement of land registry offices in the program's delivery, we reviewed relevant documentation and interviewed staff at several of the Ministry of Consumer and Commercial Relations' land registry offices and requested information from others by means of a questionnaire. In addition, we obtained information from the Ministry's Collection and Tax Appeals Branches and Property Assessment Division.

We did not rely on the work of the Ministry's Internal Audit Services Branch because its most recent report on the Land Transfer Tax program was approximately three years old.

## 3.04

### OVERALL AUDIT CONCLUSIONS

We concluded that both the Ministry and the land registry offices had adequate procedures in place to ensure that the appropriate amount of land transfer tax was collected and deposited to the Consolidated Revenue Fund and refunded or exempted based on the values of consideration and other information declared by purchasers.

However, improvements were required to ensure that declared values of consideration and other information are reasonable, and, therefore, ultimately to ensure that the appropriate amount of tax is declared and paid. In particular, we found that:

- The Ministry's expectations that land registry office personnel will peruse the land transfer tax affidavits of residence and of value of the consideration and any other relevant land transfer affidavits to determine whether they have been properly completed and whether the information and any conclusion expressed conform to the *Land Transfer Tax Act* and Regulations were not well communicated or understood.
- The Ministry did not provide land transfer tax training programs to land registry office staff, and the land transfer tax information manuals and bulletins available at land registry offices were often incomplete or out of date.

In order to assess additional taxes owing and encourage all taxpayers to voluntarily comply with taxation legislation, the Ministry regularly reviews and audits a sample of land transfer transactions. Although the Ministry's discretionary audit activity resulted in 167 assessments totalling \$6.6 million during the 1996/97 fiscal year, its effectiveness in encouraging voluntary compliance and assessing additional taxes owed was limited because:

- Affidavits for the vast majority of transactions processed by land registry offices for values of consideration less than a predetermined threshold amount and for which some tax was due were not forwarded to the MFTT Branch and, hence, were not subject to audit selection or other reviews.
- The number of audits conducted needed to be substantially increased.
- Current legislation does not have any provisions for penalties for such things as neglect, carelessness, willful default or fraud.

We also noted that:



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- The MFTT Branch did not formally monitor or analyze the overall outcomes of land transfer tax assessment objections or appeals.
  - Ministry procedures to collect \$50 million in outstanding land transfer tax receivables were untimely and based on insufficient information.
  - Applicant eligibility for land transfer tax refunds or exemptions was not verified on a timely basis. For example, eligibility for refunds issued in 1994 under the Ontario Home Ownership Savings Plan Refund Program was not assessed until May 1997.

## DETAILED AUDIT OBSERVATIONS

Approximately 95% of all land transfer tax paid is collected by the 55 land registry offices of the Ministry of Consumer and Commercial Relations when land transfers are registered. Taxes on the remainder of the transactions, consisting primarily of transfers for which the purchasers opt not to register their transactions and complex corporate transactions, are remitted directly to the Land Transfer Tax Section of the Ministry of Finance's Motor Fuels and Tobacco Tax Branch.

The taxes owing are calculated on a graduated scale based on the value of consideration paid as sworn in affidavits prepared by the purchaser's lawyer. The tax is normally charged to the purchaser by his or her solicitor as a disbursement on closing the transaction. The rates of land transfer tax vary as follows:

On amounts up to \$55,000	0.5%
On amounts over \$55,000 up to \$250,000	1.0%
On amounts exceeding \$250,000	1.5%
On amounts exceeding \$400,000 for a single-family residence	2.0%

Until May 6, 1997, a 20% rate of land transfer tax applied to the transfer of farm and recreational properties purchased by non-residents of Canada.

Taxes collected by land registry offices are deposited daily to the credit of the Consolidated Revenue Fund. The Ministry of Consumer and Commercial Relations' Finance and Administration Branch performs a monthly reconciliation of bank deposits to the land transfer tax receipts reported by land registry offices. Once reconciled, the appropriate entries are provided to the Ministry of Finance.

At the time of registering a land transfer and collecting the applicable tax, land registry offices are expected to peruse affidavits to determine whether they have been properly completed and conform to the *Land Transfer Act* and Regulations. Affidavits found to be questionable are to be photocopied and the copies forwarded to the MFTT Branch for further review and follow-up. In addition, copies of all affidavits received by land registry offices are sent to the Property Assessment Division of the Ministry of Finance. The Property Assessment Division scans these and automatically forwards all affidavits with values of consideration greater than a predetermined threshold amount or for which no taxes were paid to the MFTT Branch for further review and follow-up.

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When land transfer tax payments and attached documentation are received directly at the Ministry's MFTT Branch, the attached cheques are forwarded to the Ministry's Central Revenue and Data Processing Centre for deposit and posting to the appropriate account. The attached documentation, including affidavits, is reviewed by branch staff for possible follow-up.

## ASSESSING INFORMATION PROVIDED

A Memorandum of Understanding between the MFTT Branch and the Ministry of Consumer and Commercial Relations was signed in April 1990 to clarify and communicate the role and responsibilities of land registry offices in collecting land transfer tax and to support the MFTT Branch in its administration of the Land Transfer Tax program.

We reviewed the Memorandum of Understanding and noted that land registry office personnel are expected to peruse the land transfer tax affidavits to determine whether they have been properly completed and whether the information and any conclusions expressed conform to the *Land Transfer Tax Act* and Regulations. They are also expected to collect land transfer tax based upon the taxable value of the consideration at the appropriate rate. When the land registrar is of the opinion that the MFTT Branch should audit or deal further with a particular matter, the affidavit is to be referred to the MFTT Branch.

The presumption that the MFTT Branch can rely on the land registry offices' up-front reviews of affidavits, as detailed in the Memorandum of Understanding, was one of the reasons that most affidavits were not sent to the MFTT Branch.

However, we found that the Ministry's expectations of land registry office staff to review affidavits and determine whether they have been properly completed and whether the information and any conclusions expressed in them conform to the *Land Transfer Tax Act* and Regulations were not well communicated or understood. As a result, few, if any, land registry offices fulfilled these requirements, and, consequently, the Ministry was unable to rely on land registry offices for assessing the information provided on affidavits.

We interviewed and surveyed a sample of land registry office staff and found that, of those surveyed:

- 43% thought land registry offices were responsible only for ensuring that the amount of tax collected was arithmetically correct based on the value of consideration declared in the affidavit;
- half indicated that land registry offices do not systematically screen affidavits for potential future audit by the MFTT Branch; and
- half were either not aware that a Memorandum of Understanding existed between their Ministry and the Ministry of Finance, or were aware that a Memorandum of Understanding existed but were not aware of its contents.

We also understand that land registry offices have undergone significant staff reductions since the current Memorandum of Understanding was signed in April 1990. As a result, some of the responsibilities that the land registry offices accepted at that time may no longer be practical for them to undertake.

Our review of the Memorandum of Understanding also indicated that, from time to time, the MFTT Branch was to have either requested changes to existing procedures or re-enforced

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existing requirements. However, to the best of our knowledge, no such communication has occurred in recent years.

### **Recommendation**

**In light of the significant difference between the Motor Fuel and Tobacco Tax Branch's expectations of the land registry office staff, as described in the Memorandum of Understanding, and the functions they actually perform, the Ministry should clearly establish and communicate its current expectations for land registry office staff and, where necessary, revise the existing Memorandum of Understanding accordingly.**

### **Ministry Response**

***We agree. The Memorandum of Understanding will be redrafted to clearly specify the limited compliance functions expected of land registry office staff.***

## **TRAINING AND INFORMATIONAL MATERIALS**

To facilitate land registry offices collection and processing of the correct amount of land transfer tax, the Ministry's Memorandum of Understanding with the Ministry of Consumer and Commercial Relations requires the Ministry to periodically visit land registry offices to provide guidance and training to their staff and to provide them with informational guides and bulletins, including updates, dealing with the more complicated and technical land transfer tax issues.

However, our review of materials available at land registry offices and discussions with land registry office staff revealed that:

- MFTT Branch staff have not visited any land registry offices or otherwise provided any training on land transfer tax issues for a number of years. Several long-serving land registrars could not recall any MFTT Branch staff ever visiting their land registry offices; and
- Land transfer tax user manuals and information guides and bulletins available to land registry office staff were often incomplete and had not been updated in years. We noted that some staff were using program manuals from the early 1980s which did not include amendments to legislation and policy changes that had occurred since that time.

### **Recommendation**

**The Ministry should periodically provide training to land registry office staff on current land transfer tax issues and should ensure that land registry office land transfer tax manuals and informational guides and bulletins are complete and up-to-date.**

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### **Ministry Response**

***Sufficient material on the Land Transfer Tax Act changes has been provided to the Ministry of Consumer and Commercial Relations to enable land registry office staff to implement them. The Ministry will take a more pro-active role in the training of land registry office staff.***

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## **ENFORCEMENT ACTIVITIES**

### **AUDIT ACTIVITIES**

Audits of land transfer tax transactions serve two main purposes—to assess additional taxes owing where warranted and to promote voluntary compliance with tax legislation by serving notice to taxpayers that there is a reasonable chance that the information reported for determining tax payable will be followed up for accuracy and completeness.

The MFTT Branch's audit-related activities consist of two types of activities—ongoing desk reviews of affidavits forwarded to the Branch each year and in-depth, discretionary audits of transactions selected primarily from referrals or desk reviews.

### **AUDIT WORK PERFORMED**

We found that reasons for decisions resulting from audits were generally well supported and clearly documented and that supervisory file reviews and appropriate authorizations were evident.

However, audit working paper files lacked documented audit programs and checklists which help ensure that all necessary and appropriate audit and collection procedures are completed within the required timeframes. The lack of documented audit programs, checklists and related sign-offs contributed to the following instances:

- An assessment for \$1.4 million for taxes payable was not issued because the deed for the transaction was stamped as “tax paid” and the Branch subsequently received a legal opinion which stated that its then-practice for stamping deeds would prevent it from auditing or reassessing tax once the deed had been stamped as tax paid. We were advised that, in effect, this precluded the Ministry from auditing the transaction and reassessing tax payable, if necessary, within four years from the day the tax became payable, as provided for under the *Land Transfer Tax Act*. The stamp applied has since been changed to clearly reserve the Ministry's right to audit and, if necessary, reassess stamped transactions within the statutory period of limitation.
- A \$15,500 letter of credit serving as collateral for potential tax owed expired and could not be cashed when conditions of the undertaking were not fulfilled.

In addition, the use of audit programs or checklists would facilitate file reviews by supervisory staff and others such as staff in the Tax Appeals Branch.



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## Recommendation

The Motor Fuel and Tobacco Tax Branch should develop audit programs or checklists to be included in each audit file to help ensure that all necessary audit and collection procedures are completed by the appropriate time and to facilitate file reviews.

## Ministry Response

*The Ministry agrees that audit programs and checklists would be beneficial and is now implementing them. However, the fact that an assessment was not issued after the deed was stamped was in accordance with legal advice, which indicated any assessment issued would have been invalid under the statute. The Ministry has since changed the stamping procedure to clearly reserve its right to audit and assess, if necessary.*

## AUDIT COVERAGE

Since the objective of the audit function is not only to assess additional taxes owing for the transactions audited but also to promote voluntary compliance with tax legislation for all transfers of an interest in land, it is important that an adequate level of audit coverage be maintained.

However, we question the effectiveness of the Ministry's current audit coverage of land transfer tax transactions in maximizing the assessment of the additional taxes owed or in encouraging voluntary compliance for the following reasons:

- Affidavits for the majority of transactions processed by land registry offices for values of consideration less than the predetermined threshold amount and for which some tax is due are not required to be forwarded to the MFTT Branch and, hence, are not subject to audit selection or other review. This situation is particularly worrisome since, as discussed above, the Ministry's expectations that land registry offices conduct up-front review of affidavits were not often being fulfilled.
- The number of audits conducted needs to be substantially increased.
- The Ministry audits only a very small number of unregistered transactions, on an ad hoc basis, even though the risk of tax evasion is significant in this area.

To help ensure adequate audit coverage of all transactions, it is important that an appropriate, pro-active audit plan be prepared requiring an adequate audit coverage of all types and sizes of transactions.

## AUDIT REVENUES

Notwithstanding the MFTT Branch's low audit coverage of land transfer tax transactions, the additional amounts of land transfer tax assessed as a result of audits, net of \$1.9 million in assessments relating to Ontario Home Ownership Savings Plan refunds, were significant, as the table below indicates.

	# of Assessments Issued	\$ Value of Assessments (millions)	Avg. \$ Value Per Assessment
1996/97	167	6.6	39,500
1995/96	225	3.8	16,900

Source: Ministry of Finance

These amounts do not include additional taxes agreed to and paid by taxpayers as a result of an audit but before an assessment is issued, which are not tracked by the Ministry.

The above-noted audit recoveries are particularly commendable in light of the following points:

- All of the audits were performed by seven analysts who had other duties in addition to their audit responsibilities. For example, we found that for the last two years, approximately one third of the analysts' total time was spent on non-audit-related duties such as responding to complex telephone inquiries and providing rulings.
- Audit recoveries averaged approximately \$750,000 per analyst over the last two years, which significantly exceeded the cost of the audit work performed.
- Over 50% of all audits performed resulted in an assessment of additional taxes owed.

Given the very high incidence and amounts of audit assessments issued, we believe that significant tax revenues would be gained from increasing the number of audits performed.

### Recommendation

**To further promote compliance and maximize recoveries, the Ministry should, if possible, increase the number of audits currently being conducted.**

### Ministry Response

*The Ministry believes that it has an effective audit program for land transfer tax. However, the re-engineering of the Motor Fuels and Tobacco Tax Branch tax programs envisions a new desk audit function which will include land transfer tax audits. The Ministry has already been allocated additional person-years for an increased number of land transfer tax auditors in 1998/99.*

## PENALTIES AND FINES

Beginning June 24, 1994, the *Land Transfer Tax Act* permitted, at the discretion of the Minister, the imposition of a late filing penalty equal to 5% of the tax payable when a taxpayer fails to file a land transfer tax return as required, or fails to remit with the return the amount of tax payable. The Act also allows the imposition of a penalty equal to 5% of the difference between the tax payable and the amount of tax actually paid at the time a transfer of interest in

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land was reported. Prior to June 24, 1994, similar penalty provisions existed but the penalty rate was set at 100% of the tax payable, which we understand was often considered too onerous to apply.

As a result, our review of audit files and penalty assessment records revealed that penalties were seldom assessed for transactions where the 100% penalty rate would have applied, while the current 5% penalty is routinely assessed. We also noted that the reasons for not imposing penalties at the previous 100% rate were not documented.

The *Land Transfer Tax Act* currently has a late filing penalty of 5% but does not have any provisions for additional penalties for such things as neglect, carelessness, willful default or fraud, as is the case in other tax statutes.

However, the *Land Transfer Tax Act* does provide for fines of up to 200% of the tax otherwise payable, plus an additional amount up to \$5,000, upon the conviction of anyone knowingly contravening any provision of the Act, including making or participating in false or deceptive statements in a return or in a response to a demand for information by the Minister. However, we understand that only two cases have been taken to court in the last five years in order that a fine might be imposed.

### **Recommendation**

**The Ministry should consider introducing additional penalties to deter tax evasion through neglect, carelessness, willful default or fraud. In addition, in order to encourage the timely payment of taxes when due, all applicable penalties should be routinely assessed.**

**The rationale for assessing or not assessing penalties and for not pursuing fines should be clearly documented.**

### **Ministry Response**

*We agree that a new civil penalty for neglect, carelessness, and willful default or fraud should be introduced. Since the 5% late filing penalty is routinely assessed, we do not believe that there is any need to document this on each file. However, we will ensure that the policy for assessing the late filing penalty is published in procedures manuals. We would agree that, once the new civil penalty is introduced, the rationale for its application should be documented each time it is applied.*

## **OBJECTIONS AND APPEALS**

The *Land Transfer Tax Act* allows a person who objects to an assessment of taxes payable issued by the MFTT Branch to file an objection with the Tax Appeals Branch within 180 days of receiving the assessment or statement of disallowance. If the person is not satisfied with the subsequent decision of the Tax Appeals Branch, that person may appeal to the Ontario Court (General Division), within 90 days of receiving notice of the decision, to have the decision overturned.

For the 1996/97 fiscal year, the Tax Appeals Branch reported that it received 351 taxpayer objections to land transfer tax assessments or statements of disallowance issued by the MFTT Branch (for the 1995/96 fiscal year, it received 406 such objections). As of March 31, 1997, 175 land transfer tax appeals were filed and awaiting hearings in the Ontario Court.

Formally monitoring and analyzing the overall outcomes of all objections and appeals would help the MFTT Branch ensure that its work was of an acceptable standard and would assist in identifying areas for potential improvement.

The MFTT Branch receives a report from the Tax Appeals Branch on each objection where it allowed an adjustment. This report outlines the reasons for the adjustment and is reviewed by the Branch to determine any required follow-up action. For example, the reasons for the adjustment may require changes to procedures, legislation, highlight the need for staff training and so forth. However, we noted the follow-up action taken by the MFTT Branch as a result of this information is not documented.

In addition to these individual reports on each adjustment, the Tax Appeals Branch provides the MFTT Branch with statistical reports summarizing total objections, numbers adjusted, dollars adjusted and so forth. These reports were not being reviewed by the MFTT Branch and, further, the statistical information provided by the Tax Appeals Branch was not always accurate, as the following points illustrates.

For the 1996/97 fiscal year, the Tax Appeals Branch reported that it overturned 10% of the assessments objected to (worth \$254,000) and confirmed the remaining 90% (worth \$2.3 million). In contrast, for the 1995/96 fiscal year, the Branch reported that it overturned 66% of the assessments objected to (worth \$16.7 million) and confirmed the remaining 34% (worth \$8.7 million). Although the MFTT Branch had not analyzed or otherwise used these statistics, we found them to be inaccurate. For example, for the statistics reported for the 1995/96 fiscal year, we noted:

- a case where an objection to a \$412,248 assessment was denied, but the amount reported as denied was \$4,122,048; and
- a case where an objection to a \$776,000 assessment was allowed, but was reported as allowed 11 times, resulting in a \$7.76 million overstatement of allowed objections.

Although the review of the individual reports on the adjustments made by the Tax Appeals Branch would provide the MFTT Branch with the required information to ensure that corrective action was taken where necessary, we believe that a review of the overall statistics of the objections and appeals would assist the MFTT Branch in identifying trends and areas requiring improvements.

### **Recommendation**

**Motor Fuel and Tobacco Tax Branch should ensure that it receives accurate information from the Tax Appeals Branch on the overall results of land transfer tax assessment objections and appeals. The Motor Fuel and Tobacco Tax Branch should then analyze that information to help determine whether its overall work is of an acceptable standard and to identify trends and areas requiring improvement.**



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### **Ministry Response**

***We agree and are now reviewing the overall statistical results received from the Tax Appeals Branch. However, these statistics are only an indicator and cannot replace the more effective measure of analyzing each individual report to determine any corrective action required.***

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## **ACCOUNTS RECEIVABLE**

We found that the Collections Branch could take more appropriate and timely action to ensure the prompt and complete collection of land transfer tax receivables. As at November 30, 1997, MFTT Branch records indicated that approximately 3,400 accounts totalling \$50 million of land transfer tax were outstanding, of which 95% had been outstanding for longer than 90 days. The outstanding amount was almost six times the \$8.5 million total of all assessments issued by the MFTT Branch during the 1996/97 fiscal year.

The MFTT Branch's collection responsibilities consist of sending an initial assessment notice to the taxpayer and maintaining the accounts receivable system. The Collections Branch of the Ministry's Tax Revenue Division has primary responsibility for subsequent land transfer tax collection activities.

We found that the following factors adversely affected the collection function:

- On average, one and a half years had passed between assessment issuance and any action to collect the outstanding receivable. In most cases, collection actions were limited to sending warning letters.
- The Collections Branch assigned only one collector for the 3,400 land transfer tax receivables accounts, many of which were for relatively small amounts. We understand that the Ministry wrote off approximately 1,100 of these accounts at year end.
- Accounts receivable information from MFTT Branch had to be re-entered manually at the Collections Branch, which contributed to unreliable and inaccurate accounts receivable information. For example, accounts that had been paid or otherwise resolved in MFTT Branch records were still listed as outstanding by the Collections Branch.

In addition, we noted that:

- Some accounts receivable information maintained by MFTT Branch was inaccurate. For example, accounts totalling \$4.3 million resolved one to two years earlier were still listed as outstanding.
- The MFTT Branch manually updated interest charges on large accounts receivable on a regular basis, while interest charges on small accounts are only updated when there is activity in the account.

We also noted that neither the Collections Branch nor the MFTT Branch had information summarizing collection results. For example, basic information such as collection rates and total amounts collected annually were not compiled.

## Recommendation

To increase the effectiveness of collecting accounts receivable, the Ministry should ensure that accounts receivable information is complete, accurate and up-to-date and that appropriate collection action is taken on a timely basis.

## Ministry Response

*Over 90% of the value of receivables is secured by warrant. Typically real estate is the main asset of the debtor. The Ministry does not normally force power of sale due to the high costs involved, preferring to wait until the property is sold or refinanced before requiring payment.*

*When debts of individuals are found to be uncollectible, they will be submitted to Revenue Canada for offset against any future personal income tax refunds which may become due.*

*Additional collection staff have been allocated to land transfer tax accounts to ensure collection action is taken in a timely fashion.*

*As part of its re-engineering exercise, the Motor Fuel and Tobacco Tax Branch will develop a new accounting system that will provide the required accounts receivable functions including regular updating of interest, recording of collection activity and performance reporting.*

*In the meantime, the Motor Fuel and Tobacco Tax Branch has instituted a dunning letter if the debt remains unpaid for 45 days. The account will then be referred to the Collections Branch for further action if the account remains unpaid. This procedure should significantly reduce the number of accounts requiring the attention of a collection officer.*

## REFUNDS AND EXEMPTIONS

First time purchasers of single family homes may be eligible for land transfer tax refunds or exemptions under one of the two programs described below. Tax refunds or exemptions under these programs are processed by the Ministry based on sworn information provided by the applicant. The Ministry normally establishes eligibility for these refunds or exemptions at a later date, after information corroborating applicant claims becomes available. Assessments for any taxes owing are then issued as warranted.

- Ontario Home Ownership Savings Plan (OHOSP) Refund Program

To qualify for a land transfer tax refund under this program an applicant must:

- have opened an OHOSP prior to January 1, 1994;
- be a first-time home purchaser who has never owned a home anywhere in the world; and
- occupy the home purchased.

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Also, the applicant or his or her spouse must qualify to receive an OHOSP tax credit in the year they purchase their home or have actually received a tax credit in either of the two previous years. Eligibility for the tax credit is based on net income of no more than \$40,000 for a single individual and a combined net income of \$80,000 for a couple.

The amount of the refund is equal to the tax paid up to a maximum of \$1,225 for a home valued at \$150,000. The refund diminishes to \$0 for a home valued at over \$200,000.

- **Newly Constructed Homes Refund Program**

To qualify for a land transfer tax exemption under this program, an applicant must:

- have purchased a newly constructed home between May 7, 1996 and March 31, 1999;
- occupy the home as a principal residence by December 31, 1999; and
- be a first-time home purchaser who has never owned a home anywhere in the world.

The amount of the exemption is equal to the tax paid up to a maximum of \$1,725 for a home valued at \$200,000. The exemption is granted at the time of registration, based on an affidavit completed by the purchaser.

During the 1996/97 fiscal year, approximately 7,400 OHOSP refunds totalling \$5.6 million were approved and paid. During the same period, approximately 10,700 Newly Constructed Home Refund Program land transfer tax exemptions totalling \$13.1 million were granted.

Our review of a sample of land transfer tax refunds and exemptions found that they were correctly processed based on sworn information provided by the applicants. However, we noted that determination of income eligibility under the OHOSP Refund Program was not timely. For example, the income of applicants who had been issued refunds in calendar year 1994 were not confirmed with Revenue Canada until May 1997. Such lengthy delays are likely to reduce the amount of ineligible refunds owing to the Ministry that are ultimately repaid.

Notwithstanding these concerns, during the 1996/97 fiscal year, the Ministry issued approximately 2,100 assessments totalling \$1.9 million for recovery of land transfer tax refunds granted in prior years.

### **Recommendation**

**To verify eligibility for land transfer tax refunds and exemptions on a more timely basis and to more effectively recover land transfer tax amounts wrongly refunded or exempted, the Ministry should make arrangements with Revenue Canada to obtain income information on applicants as soon as it is available.**

### **Ministry Response**

***Effective for the 1996 taxation year onward, the Ministry of Finance has secured an arrangement to receive an early version of the applicable tapes by September of the following calendar year, that is, 1996 information is received in September 1997, and so on. This was not available for years prior to 1996.***

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## OTHER MATTERS

### *PERFORMANCE REPORTING*

Because of the limited resources allocated to the administration of the Land Transfer Tax program, the Ministry relies to a significant extent on voluntary compliance by the principals involved in land transfers.

To determine whether this reliance is warranted, the Ministry needs to develop compliance indicators to help estimate the extent of voluntary compliance and extent of taxes owing as a result of tax evasion.

The MFTT Branch has developed and is monitoring operational performance indicators which track various aspects of branch activities. For example, the Branch produces regular monthly reports which indicate such information as the number of audits completed and the number and dollar value of assessments issued as a result.

However, with the exception of cooperative housing transactions, the Branch has not otherwise attempted to develop quantifiable performance measures to allow it to assess and report on the extent of voluntary compliance by taxpayers or the nature and extent of their tax evasion or avoidance. Although the development of such indicators is at best a difficult task, we believe there are some indicators which over time would permit the Branch to assess the nature and extent of taxpayer non-compliance and the impact of the Branch's activities. For example, the Branch could:

- determine or estimate the type and number of all taxable transactions by particular risk factors, for example, the number of non-registered taxable transactions; and
- estimate the nature and extent of non-compliance for particular types of transactions based on the results of its audit activities.

### *BUSINESS PROCESS RE-ENGINEERING*

In July 1996, the MFTT Branch established a business process re-engineering team and published terms of reference for re-engineering the business processes of the Branch, including those of the Land Transfer Tax Section. The objectives of the project included: using technology to achieve cost savings, increase revenues and reduce backlogs; integrating processes for the different types of taxes administered by the Branch to take advantage of possible economies of scale; and improving management information, workflow and record management systems.

The re-engineering project was to be completed in six phases, with the detailed business design and prototyping phase to be completed by September 1997.

Key deficiencies in land transfer tax business processes identified by the re-engineering team included:

- having multiple stand-alone computer systems which require basic account information to be keyed in more than once and which limit access to information by multiple users;
- a lack of systems integration, which makes tracking necessary management information difficult;



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- the frequent use of outdated information by land transfer tax staff and others because legislation and tax advisory rulings were not always updated and easily accessible; and
  - having land transfer tax staff distracted from their regular duties by handling a large volume of telephone inquiries.

At the time of our audit in early 1998, we noted that the detailed business design and prototyping phase had not been completed. As a result, many of the deficiencies identified by the re-engineering team remained in place.

In addition, the ministry business process re-engineering efforts were expected to benefit from the implementation of the TERANET system, a new, computerized land registration information services system being developed by the Province of Ontario and a consortium of private sector partners. Although the TERANET system was originally scheduled to be tested in a land registry office in early 1998, we understand that testing of this system has been delayed at least until 1999.

Around the time that our field work for the audit was completed in January 1998, MFTT Branch began to receive Ontario property assessment data on compact disc (CD OASYS) from the Property Assessment Division. Prior to this, MFTT Branch had only on-line viewing access to this information. CD OASYS could be a very useful tool to MFTT Branch for audit planning purposes as it can be used to extract and summarize data such as the total number of affidavits registered by dollar value of consideration declared and by transaction type. Staff members from MFTT Branch were just starting to familiarize themselves with the software and its capabilities at the end of our audit.

We will follow up on the MFTT Branch's business process re-engineering initiatives to address the above-noted deficiencies in due course.

# Long-Term Care Community Based Services Activity

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The Long-Term Care Community Based Services Activity provides funding for homemaking and professional services for people at home who would otherwise need to go to, or stay longer in, hospitals or long-term care facilities. Funding is also provided to community support service agencies that assist frail elderly people and people with physical disabilities to live as independently as possible in their own homes. The Ministry of Health's Long-Term Care Division, consisting of a head office and five regional offices, is responsible for developing and implementing policies that facilitate the delivery of these services.

In January 1996, as part of the reform of long-term care, the Minister of Health announced that the existing 38 Home Care Programs, which arranged nursing visits and homemaking services, and 36 Placement Coordination Services, which managed admissions into long-term care facilities, would be consolidated into 43 Community Care Access Centres (CCACs).

CCACs, which became operational during 1997, are not-for-profit corporations governed by boards of directors. Membership in a CCAC is open to all residents in the community it serves. CCACs arrange for homemaking and professional services for eligible people in the communities they serve. CCACs contract for these services with both profit and not-for-profit providers. The Ministry is phasing in a requirement that CCACs use a competitive process to obtain these services. CCACs also arrange admissions into long-term care facilities.

The table below provides examples of the types of services accessed through both CCACs and community support service agencies.

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### Examples of Ministry-Funded Services

Services accessed through CCACs and purchased on behalf of service recipients:	Services accessed through and delivered by community support service agencies:
<ul style="list-style-type: none"> <li>• Professional Services               <ul style="list-style-type: none"> <li>- Nursing</li> <li>- Occupational therapy</li> <li>- Physiotherapy</li> <li>- Social work</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Meals-on-wheels</li> <li>• Transportation</li> <li>• Home maintenance and repair</li> <li>• Friendly visits</li> <li>• Security checks</li> </ul>
<ul style="list-style-type: none"> <li>• Homemaking Services               <ul style="list-style-type: none"> <li>- Housecleaning</li> <li>- Laundry</li> <li>- Shopping, banking, paying bills</li> <li>- Preparing meals</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>• Personal Support Services               <ul style="list-style-type: none"> <li>- Assistance with daily living, for example, personal hygiene</li> </ul> </li> </ul>	

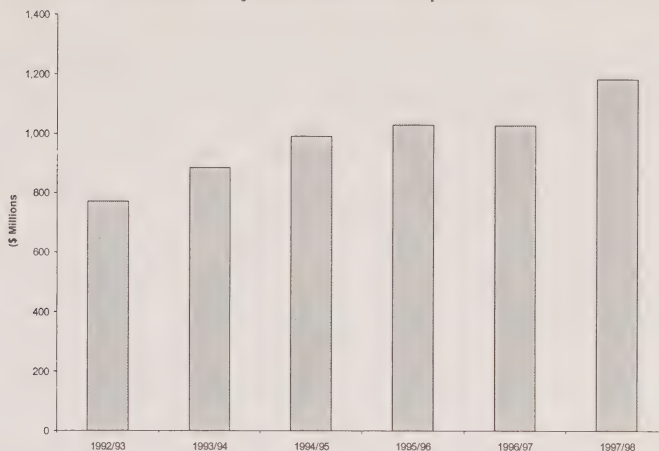
*Source: Ministry of Health*

CCACs and community support service agencies are accountable to the Ministry through standard service agreements. These agreements include a service plan and budget that specify the type and volume of services to be provided for the funding received from the Ministry.

The *Long-Term Care Act* is intended to govern long-term care community services. Most of the Act's provisions were proclaimed into law in March 1995. At the time of our audit, the Act had still not been implemented because the necessary regulations had not yet been made. In the interim, the Ministry relies on predecessor legislation, which has not yet been repealed, and the service agreements it negotiates with CCACs and community support service agencies.

In the 1997/98 fiscal year, the Ministry provided approximately \$1.2 billion in funding for the Activity. Funding for the Activity has increased significantly over the past five years. This trend is expected to continue. On April 29, 1998, the Minister of Health announced that funding for these services will increase by \$551 million over the next eight years.

### Long-Term Care Community Based Service Expenditures



*Source: Ministry of Health*

## OBJECTIVES AND SCOPE

The objectives of our audit of the Community Based Services Activity were to assess whether the Ministry had adequate procedures in place to:

- measure and report on the effectiveness of the Activity;
- ensure compliance with applicable legislation and ministry policies; and
- ensure resources were used with due regard for economy and efficiency.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Prior to the commencement of our audit, we identified the audit criteria that would be used to address our audit objectives. These were reviewed and accepted by the senior management of the Long-Term Care Division.

In conducting our audit, we reviewed and analyzed program policies and procedures; interviewed ministry staff and outside experts in the home care field; reviewed relevant literature; and researched the delivery of home care programs in other jurisdictions. We also reviewed and relied on relevant work performed by the Municipal Audit Bureau and the Ministry's Audit Branch. Our audit was substantially completed in April 1998.



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# OVERALL AUDIT CONCLUSIONS

The Ministry was in the process of implementing and developing a number of initiatives to improve its ability to effectively monitor service delivery. These included the development of service agreements and a standard assessment instrument to assess individual service requirements. However, the Ministry did not have adequate procedures in place to measure and report on the effectiveness of the Activity. Specifically, the Ministry needed to:

- measure and report on relevant performance indicators for Community Care Access Centres;
- develop appropriate procedures and timelines for the inspection of long-term care community service agencies;
- ensure that all complaints are properly investigated; and
- improve its management information systems to properly plan and manage service delivery.

While the Ministry generally had developed adequate procedures to ensure compliance with applicable legislation and ministry policies, there were a number of areas where procedures were not being followed. In particular, the Ministry needed to:

- ensure service agreements are received, reviewed and approved in a timely manner;
- establish adequate procedures for verifying that services paid for were actually provided and authorized; and
- introduce procedures to verify that recipients of services provided through CCACs have valid Ontario Health Insurance Plan numbers.

The Ministry has recognized that its procedures have not ensured that resources were used with due regard for economy and efficiency. Accordingly, the Ministry has taken action to decrease funding inequities and has introduced competitive acquisition processes. However, it still needed to:

- review and update the funding formula to ensure the distribution of funds is fair and equitable by measuring service needs;
- establish appropriate benchmarks to ensure that plans and budgets are equitable;
- evaluate the implementation of the recently introduced competitive acquisition process; and
- ensure that individuals providing personal support services are properly trained.

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# DETAILED AUDIT OBSERVATIONS

## EFFECTIVENESS

### **COST-EFFECTIVENESS OF LONG-TERM CARE COMMUNITY SERVICES**

Research into the cost-effectiveness of long-term care community services could help the Ministry make decisions regarding health care practices that reduce costs while improving or maintaining the quality of care. For example, in a recent study, Saskatchewan's Health Research Commission reported that over 25% of the time spent in hospital by patients was unnecessary and that patients could receive health and other care at home for that time at 25% to 33% of the cost of hospital care. The Commission also found that substituting home care for the 25% of unnecessary hospital care did not affect health outcomes and did not shift burdens or costs to the patients' families.

Comparing the costs of long-term care community services with institutional care requires good information about the actual costs of those services. At the time of our audit, the Ministry did not have systems in place to provide this information.

The relative costs of providing care and services are an important consideration when establishing appropriate limits for care and services. For example, the Ministry's systems do not track the costs of services provided to individuals. This type of information could be used to prompt reviews of service strategies, which could result in meeting patient needs at a lower cost.

As well, adequate information on the performance of CCACs and other long-term care community services as well as the Long-Term Care Division of the Ministry is necessary for effective accountability. The Ministry's published 1997/98 Business Plan contains limited measures of performance for long-term care community services, namely, the number of CCACs that are fully operational and the number of individuals served by long-term care community services.

#### **Recommendation**

**To assist it in making improvements to long-term care community services, the Ministry should develop a system to measure and report:**

- **the costs of long-term care community services provided to individuals; and**
- **the relevant performance indicators for Community Care Access Centres.**

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### **Ministry Response**

*The Ministry supports this recommendation. The current information system provides unit costs, but not by individual client. The new information system now under development to replace the existing, “outdated” systems will provide the necessary data on a client basis.*

*Historically, Home Care Programs were operated by autonomous agencies (in most cases Public Health Units) through what was essentially an “open-ended” funding system. Spending varied across the province, with some regions spending well above the provincial average for in-home services, while others were well below the average. Some Home Care Programs were spending four times as much as others on a per capita basis.*

*Community Care Access Centres (CCACs) are required to administer programs in a consistent manner to ensure fair and equitable access for all consumers no matter where they live in the province. CCACs must manage services within their budgets as set out in service agreements with the Ministry.*

*It is important to note that the CCAC system came into operation over 1997, with the last one starting January 1, 1998. Now that CCACs are fully operational, the Ministry can work with them through a consultative and collaborative process to ensure standardized performance measures and develop new performance measures where needed.*

*Ministry staff monitor each CCAC’s service plan and provide advice and assistance. In addition, division staff are now working with CCACs to develop best practice guidelines to support their efforts to operate within budget. This includes sharing examples of best practices and will involve developing benchmarks for provincial services.*

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## **INSPECTIONS OF LONG-TERM CARE COMMUNITY SERVICE AGENCIES**

The *Long-Term Care Act* permits the Minister to appoint program supervisors to inspect premises where a long-term care community service is provided on the premises. Inspections are an important means of assessing the quality of care provided and determining whether provincial legislation and standards are being complied with. They can also be used to assess whether services are being delivered efficiently and effectively and whether value for money is being received.

We found during our audit that the Division was not conducting inspections of long-term care community service agencies and had not developed procedures for conducting inspections. While the Ministry’s Internal Audit Branch had developed procedures to conduct value for money audits with the assistance of division staff, no such audits have been performed since 1991.

We contacted a number of other jurisdictions and found that inspections were being conducted in the United States and United Kingdom. Inspection procedures in both jurisdictions required visits to people receiving care and services. Also, at least one Canadian province conducts audits of its home care agencies that include interviews with people receiving care.

Long-term care community service agencies approved under the *Long-Term Care Act* are required to develop a quality management system for monitoring, evaluating and improving the quality of services. The Act also provides that regulations may be made governing quality management systems. If such regulations are made, inspections could theoretically be used to assess whether quality management systems are functioning to continually improve the quality of services.

Although the Act permits the appointment of program supervisors who can make home visits, it does not allow them to inspect any records dealing with quality management or quality improvement activities. This limits the Division's ability to effectively evaluate quality management systems and to verify the accuracy of information provided by quality management systems. In future, inspections will need to compensate for this restriction by more direct evaluation of the quality of the services provided.

### **Recommendation**

**To ensure that long-term care community service agencies are complying with provincial standards and providing quality services efficiently and effectively, the Ministry should:**

- develop appropriate inspection procedures and conduct periodic inspections of agencies; and
- investigate options to assess whether service agencies have successfully implemented quality management systems.

### **Ministry Response**

*The Ministry agrees that more formal monitoring mechanisms and protocols for long-term care community service providers need to be developed. The Long-Term Care Division feels, however, that ministry monitoring should focus on agreed-upon outcome measures, not on day-to-day agency operations. The responsibility of local boards for overseeing their agencies' services will be reinforced.*

*It has been normal practice for ministry staff to visit community agencies at least once a year to review service requirements. The Ministry has developed two review tools for evaluation of service outcomes: the Community Care Access Centre Fact Finding Review and the Placement Coordination Services Review.*

*In 1998/99, the Ministry will work with the affected service providers to adapt and augment existing tools to provide a more standard approach for monitoring compliance with ministry program standards.*



***Boards of directors of community agencies are now required to monitor service quality in keeping with the provisions of their service agreements with the Ministry. To strengthen this requirement, the Ministry will require community agencies to carry out client consultation/surveys and report on the results in their service plans.***

***The Planning, Funding and Accountability Manual for long-term care community services will be revised to reflect the requirement of funded agencies to establish and maintain a quality management system for the delivery of community services.***

## **COMPLAINT MONITORING**

The *Long-Term Care Act* requires CCACs and other long-term care community service agencies to establish formal processes for receiving and reviewing complaints from service recipients. In addition, a person receiving long-term care community services has the right to be informed in writing of the procedures for initiating complaints about a community service agency.

We noted that regional offices had not formally reviewed the adequacy of the complaint resolution processes developed by long-term care community service agencies and had not requested statistical information on the number and type of complaints received or the timeliness of follow-ups. Information on complaints received could corroborate other evidence of service quality deficiencies and could assist in identifying areas for further investigation.

Complaints may also be made directly to the Ministry. Regional staff are required to review and investigate complaints and, where applicable, intervene on behalf of service recipients. During our audit, we found that regional offices did not have a system to record the receipt, status and details of complaints. In particular, we noted that:

- the process for recording and following up complaints was inconsistent. For example, while some incoming complaints were assigned to a program supervisor, others were sent to the community service agency for follow-up; and
- documentation of the results of complaint investigations varied among regional offices.

### **Recommendation**

**To ensure that action is taken to improve service, the Ministry should:**

- **require Community Care Access Centres and other long-term care community service agencies to periodically submit statistical information on the number and types of complaints they have received and their resolutions; and**
- **develop a formal process to record the receipt and resolution of complaints.**

**Ministry Response**

*The Ministry will develop a formal process for the consistent recording and disposition of complaints received by the Division about long-term care community services.*

*Community Care Access Centres (CCACs) are currently required to have processes for dealing with complaints and appeals by clients. The Ministry will add a requirement for CCACs to report statistical information on the number, type and disposition of client complaints.*

*The Ministry will also require other agencies funded to deliver long-term care community services to inform clients of the process for making complaints about their services and to report similar data.*

**MANAGEMENT INFORMATION SYSTEMS**

Consistent data collection and reliable information systems are required to effectively manage a program as large and diverse as the Long-Term Care Community Based Activity. The Ministry is responsible for establishing provincial guidelines for the development of local information systems to ensure an effective interface with ministry systems. At the time of our audit, the Ministry was supporting a number of different systems at both the CCAC and ministry levels.

**MINISTRY INFORMATION SYSTEMS**

The Ontario Home Care Administration System (OHCAS) and the Community Support Services Budgeting System (CSBS) are the primary systems available to the Division for monitoring the costs and utilization of long-term care community services.

OHCAS was originally designed for health insurance billing purposes and tracks caseload and utilization data, such as the number of nursing visits, but does not maintain recipient-specific cost information. The CSBS contains financial and service information but does not contain information about the individuals who received the services.

During our review of the information provided by these systems, we noted the following:

- The Division did not have adequate procedures to verify that CCACs submitted complete and accurate data on services provided.
- The Division did not periodically review OHCAS management reports to determine the reasonableness of error messages indicating situations such as services provided to an individual after the expiration of approvals or nursing hours exceeding approved limits.
- Initial financial and operational data recorded in the CSBS for the 1996/97 fiscal year were incomplete and inaccurate. As of March 1998, the Division was still in the process of correcting the data.

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## CCAC INFORMATION SYSTEMS

The main information systems used by CCACs to manage their caseloads are the Patient Management Index and the Client and Services Information System. These systems were previously used by the former Home Care Programs.

In February 1996, a consultant reported that the existing systems could not support the Division's future requirements due to outdated technology and lack of timely management reports, particularly in the area of case management. The primary recommendation was to replace the existing systems.

In 1996, the Ministry began developing the CCAC Information System Network to collect information from CCACs, hospitals and service providers to facilitate ministry planning and management. One of the initial goals of the project was to replace all existing CCAC systems before December 31, 1999. The January 1998 implementation plan stated that the new system was to be operational in 18 months. Specific completion dates for each milestone could not be established because they were dependent on obtaining approval to implement the system. However, approval to begin testing completed components of the system was delayed pending other ministry system decisions.

The Ministry has recognized the need for effective computer systems. Initiatives such as the common assessment instrument and the new funding formula depend on reliable information being generated by computer systems. The organizations providing community services annually process approximately 20 million transactions with expenditures exceeding \$1 billion. Accordingly, to effectively manage their operations, they require accurate and timely information to analyze trends in spending, caseloads and services provided.

### Recommendation

**To help ensure the efficient and effective delivery of long-term care community services and to provide information to properly plan and manage service delivery, the Ministry should develop:**

- a plan with specific timeframes for implementing the Community Care Access Centre Information System Network; and
- procedures to verify that submitted data are complete and accurate.

### Ministry Response

*The Ministry recognizes the need to replace a substantially outdated information system that no longer meets its requirements. The Ministry has identified the Community Care Access Centre (CCAC) information system project as having a high priority for development and implementation. Early in 1998, the Ministry's Information System Division assumed lead responsibility for bringing this project to fruition.*

*A detailed implementation plan has now been completed outlining the development, production, installation and training components of the new system for each of the 43 CCACs.*

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***This plan will be shared with the CCACs pending the completion of the Information Systems Division review of the project. This plan will then provide the basis for both internal and external communication on the status of the implementation of the new system and the detailed planning for its implementation in each CCAC.***

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## COMPLIANCE

### SERVICE AGREEMENTS AND FINANCIAL REPORTING

Beginning in the 1995/96 fiscal year, Home Care Programs (HCPs) and their successors, the CCACs, were required to enter into annual service agreements with the Ministry. The service agreement consists of standard terms and conditions that establish the relationship with the Ministry regarding accountability, maintenance of records and compliance with legislation and ministry policies.

Annual service agreements require the submission of service plans and budgets. For each service provided, the package includes a description, planned service volumes, the number of clients to be served and the funding required. The service plan and budget provide the Ministry with the information necessary to approve funding.

In April 1997, the regional offices of the Long-Term Care Division were given the responsibility for administering the funding and monitoring the financial performance of the CCACs.

### BUDGET APPROVAL PROCESS

Ministry policies and procedures for preparing service plans and budgets are contained in the *Planning, Funding and Accountability for Long-Term Care Community Services: Policies and Procedures Manual*. The manual provides long-term care community service agencies with uniform service definitions to be used when determining service costs. The definitions were intended to result in consistent reporting of service costs to allow the Division to perform comparisons of unit costs among agencies.

During our audit, we noted that regional offices used a number of analytical procedures to evaluate the reasonableness of long-term care community service agencies' service plans and budgets. While some regions compared an agency's unit cost per service and cost per client to the regional average, others compared unit costs and service trends to those of previous years.

Our audit of the Division's budget approval process at the regional offices revealed that:

- As of February 1998, the majority of the CCACs had not signed service agreements for their first year of operation, ending March 31, 1998.
- Over the past two years, HCP budgets were approved by the Ministry late in the fiscal year, or early in the next fiscal year. For example, budget approval letters for the year ending March 31, 1997 were sent to HCPs in April and May 1997.
- Weaknesses existed in the preparation of budgets, including the lack of budgeted unit costs for individual services such as case management or homemaking.



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- Only one of the three regional offices we visited had established benchmarks for evaluating the reasonableness of budgeted unit costs. However, the basis on which they were developed was not systematic or documented.

A consistent budget development process is necessary in order to confirm the reasonableness of agency services provided and to enable optimal planning by service agencies.

### **Recommendation**

**To help ensure that service plans and budgets are equitable and appropriate for each long-term care community service agency, the Ministry should:**

- **set timeframes for signing service agreements and reviewing and approving budgets; and**
- **develop benchmarks for unit costs for each type of service.**

### **Ministry Response**

*The Ministry supports this recommendation and recognizes the need for timely approval of agency budgets using current information on unit costs.*

*With respect to the Community Care Access Centre (CCAC) service agreements for the 1997/98 fiscal year, there was some delay in getting them signed due to the time required to complete negotiations with CCAC representatives on an agreement format. Once consensus on format and content was reached, the agreements were signed.*

*Budget approvals for 1998/99 are expected much earlier, immediately following the announcement of 1998/99 funding levels. As a result of the fact-finding review process, and through ongoing work on best practices and benchmarks, both the quality of CCAC budgeting and the consistent recording of expenditures are expected to improve.*

## **TIMELINESS OF REPORTING**

CCACs (and formerly HCPs) are required to submit monthly and quarterly financial and operational reports. These reports provide the regional offices with information needed to monitor an agency's actual services and expenditures and compare them to the budget. Audited financial statements and an Annual Reconciliation Report (ARR) are to be submitted to the regional office within 90 days after year-end. These reports are reviewed by regional staff to ensure that funds were expended in accordance with the approved budget. Any unspent funding or ineligible expenditures are to be recovered.

During our audit, we reviewed the financial and program files for CCACs and the predecessor HCPs in three regions. Our review disclosed the following:

- Regional offices did not monitor or record the dates on which financial statements and ARRs were received.
- A significant number of financial statements and ARRs for the 1996/97 fiscal year were more than six months overdue at the time of our fieldwork.
- Regional offices became responsible for HCPs at the time HCPs were being discontinued. Regional staff had to resolve financial settlement issues, which included recovering surpluses from HCPs that were no longer operating or receiving funding. As of April 1998, approximately \$10 million remained to be recovered from the year ending March 31, 1997.
- Audited financial statements were not required to include sufficiently detailed information for the Ministry to ensure expenditures were made in accordance with the approved budget. For example, most financial statements we reviewed provided consolidated costs rather than disclosing expenditures by type of service provided, such as nursing services.

### **Recommendation**

**To improve financial monitoring of service providers, the Ministry should:**

- review the appropriateness of financial reporting requirements to ensure they require sufficiently detailed and comparable information; and
- ensure that Annual Reconciliation Reports and audited financial statements are received and reviewed on a timely basis.

**The Ministry should also ensure the timely recovery of all surplus funds.**

### **Ministry Response**

*Given the sizable budgets of the Community Care Access Centres (CCACs), the Ministry recognizes the need to review the appropriateness of the current Annual Reconciliation Reports and financial reporting protocols. The Ministry will explore the development of a new Annual Reconciliation Report for use with a broad range of funded agencies.*

*In recognition of the need to strengthen existing financial monitoring practices for CCACs, the Division has recently introduced new reporting requirements for CCACs commencing in the 1998/99 fiscal year. CCACs are required to report to the Division's regional offices actual expenditures and units of service on a monthly basis. These reports will indicate year-to-date information for the current year as well as for the previous year.*

*In addition, the Ministry will implement a corporate monitoring system to ensure a more timely submission of Annual Reconciliation Reports and more timely completion of reconciliations for recovery of surplus funds.*

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## VERIFICATION OF SERVICES

The Ministry needs assurance that service recipients actually received the services intended for them and that the service volumes agencies report on the ARRs, such as nursing visits or homemaking hours, are accurate. We noted that service volumes reported in the ARRs regularly varied from those recorded in the Ontario Home Care Administration System. Some unexplained variances ranged from 40% to 100% for different services. In one instance, the differences in service volumes exceeded 200,000 service units (for example, hours or visits).

CCACs purchase most of the services they require from outside service providers. In recent fact-finding visits to CCACs that had reported deficits, division staff found that, because of inadequate systems, a number of CCACs could be paying for services they did not authorize. Procedures are needed to ensure services paid for were in fact received and properly authorized. For example, one possible procedure that might be used is to verify with a sample of service recipients that they did receive the services. At the same time, recipients could be asked whether they were satisfied with the services received. This information would assist the Division in assessing the quality of services.

### Recommendation

**The Ministry should establish procedures to verify on a test basis that long-term care community services were received and properly authorized.**

### Ministry Response

*The information required to verify the actual delivery of services to a client is available in most situations. For example:*

- *professional service providers maintain clinical charts documenting the services that they provide to clients at each visit; and*
- *homemaker providers, and some professional providers, ask clients to sign the workers' timesheets to verify that services have been provided.*

*Community Care Access Centres (CCACs) have reconciliation processes in place to verify that the services that they are billed for have been authorized by CCAC case managers. In order to strengthen this practice for CCACs, the Ministry will require them to have provisions in their contracts with service providers to ensure that authorized services are delivered.*

*The processes that the community agencies/CCACs use to ensure that authorized services are actually received by clients will be re-examined and a standard, comprehensive approach will be explored.*

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## ELIGIBILITY

One of the purposes of the *Long-Term Care Act* is to promote equitable access to long-term care community services through the application of consistent eligibility criteria. We found that the Division was not clearly communicating to CCACs current eligibility criteria for community services. On our visits to regional offices, we found that agencies were not using consistent eligibility criteria for services such as homemaking.

The Division has recently developed draft regulations covering eligibility criteria for the various long-term care community services, which it plans to implement in October 1998. We will follow up on the implementation of these criteria at the time of our next cyclical audit of the Activity.

To be eligible for nursing and homemaking services arranged through a CCAC, a service recipient must also have a valid Ontario Health Insurance Plan (OHIP) health card. CCACs submit information to the Division's Ontario Home Care Administration System (OHCAS) when an individual first receives services. This information must include the person's name, age, sex and OHIP number. The Division informed us that it did not routinely check health card numbers against OHIP's Registered Person's Database (RPDB) to ensure their validity.

When we requested the Division to compare, for a recent period, the OHCAS information with the RPDB, OHCAS proved to be so incomplete and inaccurate that the two largest CCACs were requested to resubmit data to the Ministry. The results of the comparison indicated that there were errors in information for more than 10% of service recipients, including a significant number of recipients with invalid or expired OHIP numbers. Our discussions with division staff indicated that, in future, a valid health card number will be a requirement for most long-term care community services which receive ministry funding.

### Recommendation

**To better ensure that only eligible individuals receive long-term care community services, the Ministry should implement procedures to verify that service recipients have valid Ontario Health Insurance Plan numbers.**

### Ministry Response

***Health card numbers are routinely validated when admissions to long-term care facilities are authorized by Community Care Access Centres (CCACs).***

***The Ministry will reinforce with CCACs that a process must be in place to ensure that health card numbers are validated for individuals receiving in-home services. This process will also be linked to the development of the new CCAC information system.***

## DISTRICT HEALTH COUNCIL LONG-TERM CARE PLANS

The Ministry's *Planning, Funding and Accountability for Long-Term Care Community Services: Policies and Procedures Manual* requires District Health Councils (DHCs) to



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develop annual and multi-year, long-term care service plans. Each service plan is required to profile the community's long-term care needs and make recommendations to the Minister for improving service. Regional staff are responsible for receiving and reviewing the plans and coordinating the Ministry's responses to DHCs regarding the allocation of resources. Once ministerial approval is obtained, regional staff use the DHC plans to negotiate service agreements with long-term care community service agencies.

At the three regional offices we visited, we found that all DHCs had submitted annual and multi-year plans for the 1996/97 and 1997/98 fiscal years. At the time of our audit, the regional staff had reviewed all of the 1996/97 plans; however, there was no evidence in the files that the plans had received ministerial approval. Plans for the 1997/98 fiscal year, which had been received before April 1, 1997, had not been reviewed.

The extent of feedback that DHCs received also varied. In some regions, staff met with them to discuss their recommendations while in other regions DHCs were provided with draft responses. Many DHCs had expressed concerns to the Ministry about the delays in receiving responses to their recommendations, stating that the lack of responses forced them to complete new plans without knowing whether the previous year's recommendations had been accepted.

Regional staff informed us that any new funding was allocated according to the service needs set out in the DHC plans. Regional program files and the service plans showed that most new funding had been allocated according to the DHC recommendations.

### **Recommendation**

**To ensure that information contained in the District Health Council service plans is used effectively, the Ministry should:**

- provide District Health Councils with the results of the review of service plans on a timely basis; and
- ensure that each District Health Council's recommendations and concerns are adequately addressed.

### **Ministry Response**

*As noted in the Provincial Auditor's report, "most new funding had been allocated according to the District Health Council recommendations." The notice back to the District Health Councils is through the Ministry of Health's announcement of funding allocations to specific service agencies in the respective District Health Council areas. All funding approval letters are copied to District Health Councils.*

*Early in 1998/99, ministry staff will meet with each District Health Council to discuss the advice they have provided to date on long-term care community service priorities in their districts, and will solicit any updated advice a District Health Council may wish to offer.*

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## ECONOMY AND EFFICIENCY

### FUNDING FORMULA

The need for long-term care community services in a district varies with the characteristics of the district's population, such as the number of elderly people and people with disabilities, the severity and frequency of disabilities, and the level of support provided by family and friends. Districts are geographical areas of the province that generally follow municipal boundaries. An effective needs-based funding formula would distribute available funds by taking into account both the need in a district for services and the relative costs of providing them.

In the 1994/95 fiscal year, the Ministry's Long-Term Care Division introduced a system that allocated funds to individual districts for a specified range of long-term care community services. However, the Division did not have the information necessary to directly assess the need for services in each district. On an interim basis, it used the 1994/95 provincial average expenditures by age and sex for home care services and applied those average expenditures to the districts' populations to determine the amount of funding needed for each district. This process revealed that many districts had been receiving significantly less than their fair share of funding while others had been receiving much more.

The Division decided to address these inequities by using the formula to allocate new funding mostly to districts that were relatively under-funded. In March 1996, the Minister of Health announced that funding for Long-Term Care Community Based Services would be increased by \$170 million over the next two years. Although most of these funds were allocated using the funding formula, the Division's calculations indicated that some districts were still significantly over-funded while others remained under-funded. For the 1997/98 fiscal year, 17 CCACs reported funding deficits totalling \$34 million; all of these were located in districts determined to be under-funded for 1998/99. After reviewing the causes of the deficits, the Ministry agreed to fund them as one-time expenses.

Significant differences between the current levels of funding and the levels required for equity among districts suggest the possibility of inequitable access to services among districts. Individuals in similar circumstances in different parts of the province may not have the same access to services. For example, we noted that some CCACs reporting funding deficits had introduced waiting lists for homemaking services. At the time of our audit, the Ministry had not developed a plan to eliminate funding inequities among districts.

The funding formula does not ensure that funds will be used efficiently, give any assurance about the quality of care provided, or establish the amount of funding required to provide an adequate level of service. Even if the funding formula did accurately reflect the need for long-term care community services in the 1994/95 fiscal year, it would need to be adjusted in subsequent years to reflect changes in demographics and changes in patterns of use.

Although the funding formula is intended to determine a district's fair share of available funds, it does not address the division of district funds between CCACs and other community service agencies. Services arranged by CCACs and those provided by other community service agencies often meet unique needs and are not interchangeable. We found that the percentages of funds allocated to CCACs and other community service agencies varied significantly among districts. In one district, 69% of the funding went to the CCAC and 31% to other community service agencies, while in another district 90% went to the CCAC and

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10% to other community service agencies. These differences may indicate greater inequities in services among districts than those indicated by the funding formula.

### **Recommendation**

To better ensure equitable funding and access to long-term care community services, the Ministry should:

- establish a plan to eliminate inequities in funding and differences in service levels among districts;
- ensure that its funding formula takes into account service needs, ongoing demographic changes and changes in the health care system; and
- review the appropriateness of funding allocations between Community Care Access Centres and community support service agencies.

### **Ministry Response**

*The Ministry has been, and will continue, working toward eliminating the inequities in funding and differences in service levels among the 38 long-term care service areas.*

*Since 1994, significant progress has been made.*

*The long-term care community services equity funding formula takes into consideration three key factors to determine a fair share distribution of funds for each long-term care service area. These three factors are:*

- *the number of people in each area, by age and sex;*
- *the history of utilization of long-term care services of each five-year age/sex cohort; and*
- *the existing amount of funding for community services in each of the 38 long-term care service areas.*

*In keeping with our commitment to regularly review and validate the effectiveness of the long-term care community service equity funding formula, the Long-Term Care Community Services Equity Funding Formula Review Committee was established in May 1998. The recommendations of the Committee are expected in the fall of 1998.*

*On April 29, 1998, the government announced an investment of \$1.2 billion to expand and improve the long-term care system, of which \$551 million will be used to expand community-based services. The \$551 million will be distributed using the equity funding formula. This substantial investment of \$551 million will create provincial equity in long-term care community service funding by the year 2005/06.*



*The major differences in the local split of funding between Community Care Access Centres (CCACs) and other community services are also being addressed. In 1998/99, a provincial formula is being applied to reduce this discrepancy. In areas receiving new money, a larger percentage will go to other community services if the CCAC already has a higher-than-average share of the local funding. The Long-Term Care Community Services Equity Funding Review Committee was specifically asked to examine this local split of funding and to make recommendations.*

## 3.05

### ACQUISITION OF SERVICES BY COMMUNITY CARE ACCESS CENTRES

In the past, Home Care Programs contracted with outside providers for homemaking and professional services without a competitive selection process. In January 1996, the Minister of Health announced that, in future, these services were to be acquired using a competitive request for proposal (RFP) process with the intention of obtaining the highest quality at the best price.

To give current providers an opportunity to adjust to the competitive acquisition process, their service volumes (hours or visits) were protected on a declining basis over three years. During the three-year transition period, CCACs are required to issue annual RFPs for unprotected volumes.

To provide a framework for implementation, the Ministry established provincial requirements for the RFP process, developed an RFP template for use by CCACs and provided training sessions for CCAC staff. While the provincial requirements contain a number of quality requirements for the delivery of service, individual CCACs may decide whether or not to include them in particular RFPs. In addition, CCACs determine the weight assigned to any quality requirements used when evaluating proposals.

Annual RFPs require significant resources. Staff time and efforts are also needed to develop smooth working relationships with new service providers. Service recipients are also affected by such changes since they are likely to result in a change in caregivers. These costs must be weighed against expected benefits to determine the best frequency for requesting proposals.

At the time of our audit, separate RFPs were being issued for each of the services required. In some circumstances it may be advantageous to combine different services in one RFP. The provision of most services by the same provider may result in better coordination of care.

In addition, the Ministry had no plans to evaluate whether the RFP process had met its objectives. Such an evaluation would allow the Ministry to make modifications to the process and correct any problems in implementation.

The Ministry has yet to develop standardized tools that CCACs can use to assess whether quality of service requirements in the RFP are being met.



## Recommendation

To help ensure that the request-for-proposal process used by Community Care Access Centres is meeting its objectives, the Ministry should:

- develop and implement standardized methods that Community Care Access Centres can use to assess whether the quality of service requirements in their requests for proposals are being met;
- evaluate its implementation; and
- consider how often requests for proposals should be issued.

## Ministry Response

*The Ministry fully supports this recommendation and recognizes the need to ensure that Community Care Access Centres (CCACs) award the "highest quality/best price" contracts in keeping with the provincial policy.*

*In 1997 and 1998, the Division completed two province-wide training sessions for representatives of CCACs and provider agencies on the request-for-proposal process. Over 950 staff of CCACs and provider service agencies were trained. In addition, training on service contract management was provided to representatives from all CCACs.*

*On January 21, 1998, the first meeting of the CCAC Request for Proposal Monitoring Committee was held, involving representatives from CCACs and "for-profit" and "not-for-profit" service providers. By June 1998, the Committee had met four times to discuss specific issues being encountered in the request-for-proposal process and to refine the terms of reference for this ongoing committee.*

*On June 18, 1998, the Ministry met with CCAC representatives to launch a more formal request-for-proposal evaluation which will be developed in consultation with CCACs and their service providers. The Ministry plans to engage a consulting firm to complete this independent evaluation.*

## QUALIFICATIONS OF PERSONAL SUPPORT WORKERS

The abilities and knowledge of workers providing personal care and support services are critical to the successful delivery of long-term care community services to clients. In 1993, the Ministry and the Ontario Community Support Association established a Training and Resource Group to develop a new training program for workers who provide personal care and support services to people living at home and in long-term care facilities. In October 1994, the Group issued its report. Among the report recommendations were that the Ministry develop:

- a comprehensive implementation plan for the new training program;

- a process for assessing existing health care aides' and homemakers' abilities against the new training program; and
- a timeframe for making the successful completion of the new training program a condition of employment.

The Group envisioned that, by the year 2000, all workers providing personal care and homemaking services would have the abilities covered in the new training program. In May 1997, the ministries of Health and Education approved the Personal Support Worker Training Program curriculum to be offered at various community colleges. The new program consolidates and replaces a number of existing training programs.

An implementation plan and a process to assess all existing workers have not been developed. The Ministry does not maintain specific information on the qualifications of workers currently providing personal care and homemaking services to clients. Skills upgrading for the existing workforce is expected to occur as workers begin voluntarily to take the courses to improve their skills. However, new students wishing to work in personal support will be required to complete the training program.

### **Recommendation**

**To better ensure that long-term care community service recipients are receiving quality services from properly trained and qualified workers, the Ministry should develop a formal plan along with specific timeframes for fully implementing the standards of the Personal Support Worker Training Program.**

### **Ministry Response**

*The new Personal Support Worker Curriculum and Training Program was approved by the Ministry of Health and the Ministry of Education and Training in the spring of 1997. Colleges of applied arts and technology and private vocational schools began to offer the new program in September.*

*Starting in 1998/99, the Division plans to increase annual funding from about \$6 million to about \$10 million annually for the training of personal support workers. A joint project is now under way with the Ontario Community Support Association and the Ontario Home Health Care Providers' Association to determine how to fairly and equitably distribute funding to existing and new workers. In the longer term, responsibility for funding worker training will be shifted to provider agencies, and legitimate training costs included in their proposals submitted to CCACs.*

## **SCREENING OF PERSONAL SUPPORT WORKERS**

Individuals who provide long-term care community services have access without direct supervision to vulnerable adults and their property. Therefore, adequate procedures to prevent

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any abuse of this position of trust are important. At least one province already requires reference and criminal record checks for community service workers. While individual long-term care community service agencies may check references and may inquire about criminal records, there is no provincial policy in this regard. Further, screening workers providing long-term care community services for criminal records may require additional legislative amendments.

### **Recommendation**

**To assist in safeguarding the interests and well-being of long-term care community service recipients, the Ministry should ensure long-term care service agencies appropriately screen workers providing care.**

### ***Ministry Response***

*The Ministry supports this recommendation. The provision of appropriate staff and safeguarding of the well-being of service recipients is an important responsibility of funded agencies.*

*Improved and consistent training through the Personal Support Worker Program will help ensure that workers are appropriately trained and sensitive to the needs of clients served.*

*The Ministry will explore with provider groups the development of guidelines for screening front-line staff.*

# Ontario Health Insurance Plan

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## 3.06

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The Ontario Health Insurance Plan (OHIP), which was established under the *Health Insurance Act*, pays at specified rates for insured services provided to residents of Ontario by physicians and other health care providers, commercial laboratories, diagnostic and therapeutic facilities. OHIP also pays for medical and hospital treatment provided to Ontario residents in other provinces and outside of Canada.

The Assistant Deputy Minister, Health Insurance and Related Programs, is the General Manager of OHIP and is responsible under the Act for OHIP's overall administration.

The Registration and Claims Branch and the Provider Services Branch administer the day-to-day operations of OHIP. The Registration and Claims Branch is responsible for registering eligible Ontario residents and processing medical claims submitted by health care providers. The Provider Services Branch is responsible for developing and providing medical consulting services which include:

- adjudicating complex claims and approving out-of-country claims;
- maintaining a registry of all health care providers who bill OHIP; and
- verifying that:
  - medical claims are for services that have been rendered;
  - the nature of the services has not been misrepresented;
  - the services were medically necessary; and
  - services were performed in accordance with accepted professional standards and practices.

In the 1997/98 fiscal year, OHIP paid approximately 134 million claims totalling \$5.1 billion in its nine district offices.

## OBJECTIVES AND SCOPE

The objectives for our audit of OHIP were to assess whether system controls and related procedures were adequate to ensure the proper approval, processing and payment of health care provider and commercial laboratory claims, and whether the Ministry had adequate policies and procedures in place:



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- to ensure that OHIP was managed with due regard for economy and efficiency and in accordance with applicable legislation; and
  - to measure and report on the effectiveness of the OHIP system.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our audit focused on the systems and procedures related to the payments to, and the related claims from, fee-for-service health care providers and commercial laboratories, and out-of-country claims. For the 1997/98 fiscal year, these payments totalled approximately \$4.9 billion or 96% of all payments made. Prior to the commencement of the audit, we identified audit criteria that would be used to address our audit objectives. These were reviewed and accepted by the Assistant Deputy Minister, Health Insurance and Related Programs.

In conducting our audit, we reviewed and analyzed OHIP's policies and procedures as well as those of the Medical Review Committee of the College of Physicians and Surgeons of Ontario; interviewed appropriate ministry staff and outside experts; and reviewed relevant literature. We also reviewed and relied on relevant work completed by the Ministry's Audit Branch. Our audit was substantially completed in March 1998.

## OVERALL AUDIT CONCLUSIONS

The Ministry's controls over OHIP claims needed to be more effective. Additionally, procedures currently in place to assess the effectiveness of the OHIP system needed improvement. More effort was required to address inappropriate payments by improving the monitoring of health care provider billings. The Ministry also needed to:

- complete the verification of persons registered prior to 1995 to better ensure that services are provided only to eligible individuals;
- strengthen policies and procedures for verifying the authenticity of out-of-country claims to ensure that only valid claims are processed;
- regularly review the use of claims processing override codes to ensure that only valid claims are paid;
- ensure that the Verification Letters System is meeting its objective;
- examine options with the College of Physicians and Surgeons of Ontario to improve the effectiveness of the Medical Review Committee process and the timeliness of the review of questionable practitioner billings; and
- implement sanctions permitted under the *Health Insurance Act*.

In assessing whether resources were managed with due regard for economy and efficiency, our audit focused on the information technology used in processing OHIP claims, including the process for controlling system changes, and the existence of a system business resumption plan. We found that these aspects of the OHIP system were managed with due regard for economy and efficiency.

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# DETAILED AUDIT OBSERVATIONS

## REGISTERED PERSONS DATABASE

Under the *Health Insurance Act* every person who is a resident of Ontario is entitled to OHIP coverage. A resident is defined by the Act as a person who is legally entitled to remain in Canada, who makes his or her home in Ontario and is ordinarily present there.

The Ministry maintains a Registered Persons Database (RPDB) that contains information on individuals such as their health number, surname, given name, gender, date of birth and address. As of April 1998, the RPDB had recorded 11.8 million people as insured persons under the Act.

In 1990 the Ministry replaced the OHIP family-based registration system with an individual-based system and issued a new health card to each resident of Ontario. The RPDB was established based on information contained in the family-based system. However, the accuracy of that information and the eligibility of individuals was not verified at that time because the Ministry wanted to ensure speedy registration and continuous health coverage. The Ministry had planned to verify the data and eligibility of residents after the registration process to ensure that:

- every eligible resident had one health number and had received a card; and
- each person who had been issued a health card met minimum eligibility criteria.

In our 1993 *Annual Report* we noted that the Ministry had initiated the establishment of a Registration Verification and Control Unit to verify the data and eligibility of individuals who had been registered. In our follow-up in 1995, we were informed that a Registration Enhancement Project had been initiated with a two-year mandate to develop prototype tools and opportunities to improve the quality of the RPDB. The work of the project has now been integrated into the operations of the Verification Unit and the Registration and Claims Branch.

Since 1994, the Ministry has verified the data and eligibility of all registered persons applying for a new, renewed or replacement card. These requirements were continued with the introduction of photo health cards in 1995. During our current audit, we were informed by ministry staff that since 1995, 2.3 million photo health cards have been issued, of which 1.3 million were replacement cards for individuals registered before 1995. The remaining pre-1995 registrants continue to use the old card. Verification of the eligibility of these individuals has been carried out only when an individual's eligibility is suspect.

### Recommendation

**To better ensure that services are provided only to eligible individuals, the Ministry should complete the verification of persons registered prior to 1995.**

## **Ministry Response**

***In 1994, the Ministry strengthened the security and integrity of the registration process, incorporating a number of procedures recommended by external forensic auditors and requiring individuals applying for a new card to first confirm their eligibility for the Ontario Health Insurance Plan. Changes were also made to the information presented on the red and white health card to include the card holder's birth date and sex and a date range indicating the period of time for which the card was valid. These requirements were continued and strengthened with the province-wide introduction of re-registration for photo health cards in 1995. These enhanced processes are used for new, renewed and replacement health cards.***

***In June 1995, the government asked the Ministry to review its card technology, processes and potential for a common government service card. Verification of persons registered prior to 1995 is expected to resume once the review is completed.***

## **CLAIMS PROCESSING**

Claims submitted to OHIP include the physician's registration number, the patient's health card number, date of birth, the service date, the fee service code for services rendered and the fee billed. In the 1997/98 fiscal year, approximately 134 million claims averaging \$38 per claim were paid. Ninety-six percent of the claims were submitted on computer disks or tapes, with the remainder being submitted on paper or transmitted electronically. OHIP's computer system matches the information contained on the claim to the following databases:

- Registered Persons Database;
- Health Resources Registry, which contains a list of the licensed service providers and the types of services each provider is allowed to perform;
- Fee Schedule Master; and
- Medical Rules.

## **MANUAL CLAIMS CORRECTIONS**

During the 1997/98 fiscal year, 6.2 million claims were rejected by the OHIP system and flagged for manual assessment. Rejected claims are directed to the Online Claims Correction System (OCCS) where they are assessed by claims assessors at district offices for possible resubmission to the system. As at March 31, 1998, OHIP employed approximately 132 claims assessors.

Claims assessors identify claims that should be referred to the medical consultants for adjudication. Subsequently, the assessors select the corrective action appropriate for these and other rejected claims, such as:

- returning the claim to the health provider;

- adjusting the approved fee assigned by the system;
- selecting an assessment or “bypass” code to instruct the system to reprocess the claim and bypass one or more computer checks (for example, fee schedule and medical rules); or
- changing any of the information submitted by the health care provider such as the service code, number of services or fee billed.

In our 1993 *Annual Report* we found that improvements were needed in the procedures used for ensuring that appropriate and consistent action was being taken to address rejected claims. At that time the Ministry replied that a claims project was under way with the mandate of redesigning the claims processing system. A number of our concerns had still not been addressed. In our current audit we noted the deficiencies indicated below.

- There was no evidence of ongoing management review of the use of bypass codes. The system did not produce any reports indicating the reason for the approval of rejected claims. In addition, the necessary identifying information for management to reference individual claims to the OCCS was absent.
- The OCCS permitted original claims data to be changed in order to allow claims assessors to correct keypunch errors on manual claims. The assessors could also change the data for claims submitted in electronic format. However, the changes were not traceable because the system did not record the source of the changes.
- The ability to establish accountability and to monitor the performance of claims assessors was limited because the system did not record the identity of the clerk approving each rejected claim.

### **Recommendation**

**To help obtain assurance that appropriate and consistent corrective action is taken on rejected claims:**

- information on individual rejected claims that have been approved by the claims assessors should be maintained for ready access by management;
- management should regularly review the use of bypass codes;
- any changes made in the Online Claims Correction System (OCCS) to original claims data submitted by health care providers should be traceable; and
- the identity of the claims assessors responsible for any changes made in the OCCS should be determinable.



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### **Ministry Response**

*The Claims Project to redesign the legacy claims system that was under way in 1993 has been interrupted for a number of other priorities. In the interim, a number of other mechanisms to facilitate the on-line monitoring of claims and potential fraud have been introduced, and training sessions for all claims processing staff are scheduled for the fall of 1998 to help ensure assessment codes are used properly and consistently.*

*Further systems enhancements, including ready management review or access to reports of modified or bypassed claims, cannot be addressed until Year 2000 changes are completed.*

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## **FEE SCHEDULE MASTER AND MEDICAL RULES**

The Ministry's Fee Schedule Master contains over 5,000 types of medical services insured under the *Health Insurance Act* and the OHIP fee payable for each service. The insured services and corresponding fees are determined through negotiations between the Ministry and the associations representing the various health care providers. The largest health care provider association is the Ontario Medical Association that annually negotiates fees and services on behalf of approximately 22,000 physicians registered with OHIP. All services and fees are approved by regulations as required by the Act.

In our *1993 Annual Report*, we noted that: "There were 57 new or revised medical rules which were awaiting inclusion on the system and which could have a financial impact on the amounts paid to a health care provider." At the time of our current audit, we noted that this backlog had been eliminated and that there were 167 medical rules being applied by the OHIP system to determine the validity of a claim. For example, where more than one related service code is used, the appropriate medical rules for the service codes are applied to determine whether there are more encompassing codes for the same services that will result in a lower claimable amount.

The application of a medical rule will result in one of the following actions:

- allowing claim amounts up to the fee listed in the Fee Schedule Master;
- rejection of a claim for review by a claims assessor; or
- disallowance or reduction of the amount claimed.

Our tests indicated that the medical rules were generally being properly applied and that payments were based on the rules in place at that time.

## **ONCE-IN-A-LIFETIME OPERATIONS**

Some operations can be performed only once in the lifetime of an individual (for example, a gall bladder removal). When a claim for such an operation is processed, the system checks the claims reference file for that health card number to determine whether a claim for the same procedure has previously been paid. However, the system does not maintain a record of

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operations performed more than seven years ago. Therefore OHIP will pay the current claim even though a similar claim may have been made over seven years ago.

### **Recommendation**

**To avoid paying twice for the same service, information on once-in-a-lifetime operations already performed should be retained in the claims system until the insured person is deceased or otherwise ceases to be eligible.**

### **Ministry Response**

*It is agreed that one-time services should be retained in the claims system until the insured person is deceased. However, because the highest priority for systems resources is Year 2000 compliance, implementation will not occur until after the Year 2000 changes are complete.*

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## **OUT-OF-COUNTRY CLAIMS**

Regulations under the *Health Insurance Act* state that licensed facilities outside Canada where medical or surgical services are rendered are to be considered health facilities for the purposes of the Act. Services provided by these facilities to Ontario residents are insured and are paid at the rates prescribed in the regulations. In the 1997/98 fiscal year, OHIP paid approximately \$34 million for out-of-country claims.

### **PRIOR APPROVAL**

Regulations under the *Health Insurance Act* permit the Ministry to enter into a "preferred provider arrangement" with the operators of hospitals and health facilities outside Canada for the provision of specified medical services to OHIP-insured persons. The amounts payable for these medical services are specified in the individual agreements with the providers.

Services are eligible for coverage if the treatment is generally accepted in Ontario as being appropriate under the specific circumstances and is either not performed in Ontario or requires the individual to travel outside Canada as it is medically necessary to have the procedure performed without delay.

The regulations also specify the conditions of payment for such services and require an application to be made to the General Manager of OHIP by a physician who practices medicine in Ontario. The General Manager must give written approval of the amount to be paid before the services are rendered. However, at the time of our audit, approval was actually recommended by ministry medical consultants. Approval was not given by the General Manager as required by the Act.

The average amount of an out-of-country claim is approximately ten times the average claim from Ontario service providers. Considering the significant average size of individual claims,

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these applications warrant review and approval by more senior management so that value for money is achieved with respect to out-of-country services.

### **Recommendation**

To help ensure that service proposals receive adequate management review, the Ministry should establish appropriate levels of authorization for the prior approval of out-of-country services before becoming liable for the payment of significant amounts for such services.

### **Ministry Response**

*Under the Health Insurance Act, the General Manager may delegate authority for approval of claims. The following changes were being implemented at the time of the audit:*

- *Effective January 1, 1998, all prior approved expenditures where estimates exceed \$100,000 are reviewed by the manager of Provider Payments and Policy prior to confirmation of payment.*
- *As of March 1, 1998, all applications approved by the medical consultants require the Director of Provider Services Branch's approval prior to treatment authorization.*

## **CLAIMS VERIFICATION**

While the Ministry uses verification letters to substantiate claims from Ontario practitioners, no similar practice exists with regard to the verification of out-of-country claims. Because of the significant amounts involved, out-of-country claims should also be subject to a regular verification process. Such a process could include random audits of third-party claims, interviewing insured individuals and verifying the existence and licensing of the service providers with governing bodies.

### **Recommendation**

To help ensure that only valid claims for out-of-country services are being made and paid, the Ministry should establish policies and procedures for verifying the authenticity of such claims.

### **Ministry Response**

*The Out-of-country Claims Unit, in collaboration with the Investigation Unit, is strengthening its review of suspicious claims.*

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## STALE-DATED CLAIMS

Under the *Health Insurance Act*, physicians and other health care providers are entitled to a prescribed fee if claims are submitted no later than six months after the medical service has been provided. When claims are being processed for payment, the OHIP system currently does not count the month in which the service was performed when calculating the time between the service date and the date of submission. Also, claims that are input within the first 18 days of a month are treated by the system as having been received on the last day of the previous month. Accordingly, a claim can be submitted more than seven months after the service date and still be honoured.

For out-of-country claims, OHIP accepts a claim even if it is submitted one year after the date of service.

### Recommendation

**The Ministry should implement system controls and procedures to help ensure that claims are not paid unless they meet the *Health Insurance Act's* requirement that service providers submit claims within six months of the date of service.**

### Ministry Response

***The Ministry believes that, given adequate warning, most providers would ensure that claims are submitted within the allowable timeframes.***

***The implications of refining the stale-dated formula and related assessment process within the legacy batch system will be assessed opposite other claims system refinements for action after the Year 2000 changes are complete.***

***The Ministry will review the out-of-country claims payment policy and, if it is determined that the current policy should be retained, will seek appropriate regulatory authority.***

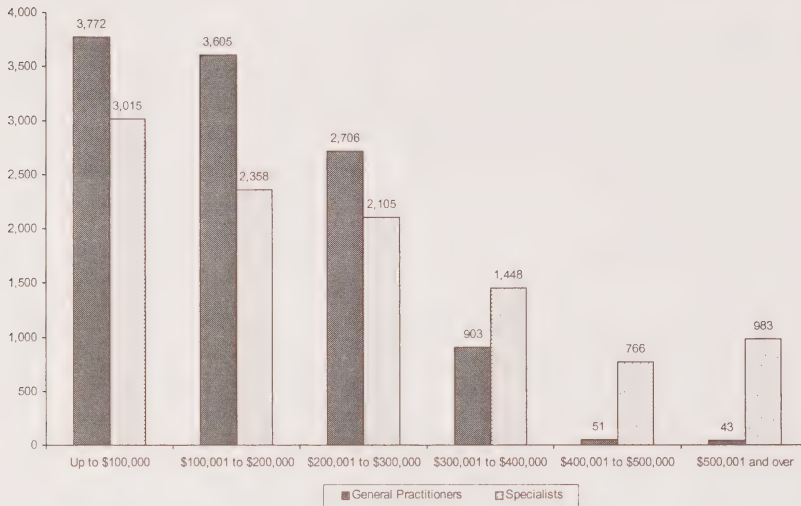
## MONITORING AND CONTROL UNIT

Monitoring and control staff of the Provider Services Branch are responsible for reviewing physician and practitioner billings. The following chart indicates the billings of fee-for-service physicians during the 1997/98 fiscal year.



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### Distribution of Physicians by Billing Volume



Source: Ministry of Health

## PHYSICIANS MONITORING SYSTEM

Prior to 1996, the Ministry used its Physicians Monitoring System to identify, on an ongoing basis, physicians who had practices that varied significantly from those of their peers. The parameters covered included: number of patients seen; number of services billed; and the fee charged per service by the particular specialty. The system also took into account the patient mix, the population and geographical region where the physician practised.

In our 1990 and 1993 *Annual Reports*, we reported that the Physicians Monitoring System was generally working well in identifying questionable billings. However, those billings that might have been well outside the acceptable range for a particular procedure were unlikely to have been identified as long as the physician's overall activity fell within the average practice. Accordingly, we recommended that the system should be refined to highlight significant variations in specific services or procedures. The Ministry responded, in part, that it had initiated a project that would look at redevelopment of the system.

In 1994 Queen's University was retained by the Ministry to develop a strategic plan for monitoring and controlling the system. This plan recommended that the Ministry "upgrade or replace the Physicians Monitoring System to improve functionality and remove the most serious limitations. Specifically, modify the system to allow run-anytime mode (instead of annually-only); create data set outputs as well as paper reports, to permit subsequent analysis; allow real-time access to major files in the system."

In 1996 the Ministry replaced the Physicians Monitoring System with customized reports to identify physicians with unusual billing patterns. Although the number of referrals to the Medical Review Committee has increased, the Unit has recognized the need for a system that uses rigorous mathematical models and has a data interrogation capability for analyzing billings using various risk factors. Such a system should be able to track trends in a physician's billing,

identify billing codes that are inconsistent with the physician's specialty, identify exceptionally high levels of certain service types and identify codes that should not be billed together for the same patient on the same day.

To complement the system used to monitor physicians, at least one other province carries out audits of health care providers. This matter was also raised in our *1993 Annual Report*. At that time, the Ministry responded that it would explore legislative and policy alternatives to enhance the authority of the General Manager for audit and investigative purposes. While relevant legislative amendments were introduced in 1995 as part of Bill 26, they were not passed into legislation.

### **Recommendation**

**To better highlight questionable billing practices, the Ministry should ensure that screening tools are developed to replace the Physicians Monitoring System.**

### **Ministry Response**

**The Ministry has augmented its monitoring capacity by the addition of full-time and part-time medical consultants and continues to develop enhanced monitoring tools. The Ministry is using a monitoring system developed in partnership with Queen's University which utilizes statistical analysis software and is in the early stages of examining "data-mining" tools, including neural networks.**

## **VERIFICATION LETTERS SYSTEM**

The Ministry's Verification Letters System produces computer-generated letters that are sent to patients to confirm certain details of services paid for on their behalf. The Verification Letters system is used to detect abuse, deter fraudulent billings and create public awareness.

Letters are not generated for services pertaining to diseases or conditions that are considered to be sensitive. They are also not sent for out-of-country claims, nor for commercial laboratory or other diagnostic and therapeutic procedures since the patients are not likely to have seen the providers who billed for the services. The patient is asked to return the letter to the appropriate district office and to indicate whether the health care provider named was seen on the date shown.

These letters are sent to patients selected at random indicating the date of service provided, the amount paid and the name of the health care provider. However, no description of the services rendered is included. As we noted in our *1993 Annual Report*, the verification letters used by the Ministry of Health in British Columbia contain a description of the services provided in layman's terms.

If a patient disputes a service, the medical consultant in the district office attempts to resolve the issue. Where the district office believes that the service has not been provided and the case is not an isolated incident, the issue is referred to the Provider Services Branch for further

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investigation. This may entail sending letters to other patients who have received similar services from the same health care provider. A significant number of discrepancies can lead to referral to the Investigation Unit if fraudulent billings are suspected.

During our current audit, management informed us that adverse responses to verification letters were not tracked to ensure that follow-up was adequate and that not all of the required monthly summaries were being submitted in a timely manner showing the results of verification activities.

### **Recommendation**

**The Ministry should review the effectiveness of the Verification Letters System to ensure that it meets the objective of detecting abuse and deterring fraudulent claims. In order to enhance the possibility of obtaining better information for analysis purposes, the Ministry should also consider including in the verification letters a description of the services rendered in non-medical terms.**

### **Ministry Response**

***The Ministry has initiated a number of changes to support the Verification Letters System, including:***

- *increasing the number of letters;*
- *developing an automated tracking system which is currently in pilot use; and*
- *documenting and establishing procedures with district offices.*

***The Verification Letters System is only one of the ways of monitoring invalid claims. Its main use is in detecting claims which are submitted for services that have not been rendered. Internal ministry monitoring detects invalid claims which relate to inappropriate billing behaviour.***

## **MEDICAL REVIEW COMMITTEE**

Under the *Health Insurance Act*, the General Manager of OHIP may refuse to pay for a service provided by a physician, practitioner or health facility, pay a reduced amount or require a reimbursement of the amount paid for a service, if the General Manager is of the opinion that:

- all or part of the insured service was not in fact rendered;
- the nature of the service was misrepresented;
- all or part of the service was not medically or therapeutically necessary; or
- all or part of the service was not provided in accordance with accepted professional standards and practice.

The General Manager may refer any matter pertaining to any of these circumstances regarding physicians to the Medical Review Committee (MRC) of the College of the Physicians and

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Surgeons of Ontario before deciding on payment or reimbursement. The MRC is a committee established under the *Health Insurance Act* and is required to make recommendations to the General Manager on any matter referred to it. In the 1997/98 fiscal year, the Ministry paid the College approximately \$1.8 million for the services provided by the MRC.

## REFERRALS TO THE MRC

In our *1993 Annual Report*, we indicated that 156 cases were pending and that the average length of time between a referral and a recommendation was 32 months. The Ministry responded that amendments to the *Health Insurance Act* would expand the membership of the MRC, thus permitting the handling of a larger number of cases.

In 1996 the Committee membership was increased from 8 to 24, comprising 18 physicians who are members of the College of Physicians and Surgeons of Ontario (CPSO) and 6 members of the public who are not physicians or medical practitioners. However, as at March 31, 1998, only four public members had been appointed and two positions had been vacant for a number of months.

Between 1993 and November 1997, the average length of time between a referral and a recommendation had increased to 48 months. Moreover, 271 cases were pending as at March 31, 1998. During our audit we were informed by the MRC that the Ministry had approved funding to hire more staff to address the backlog.

In the 1997/98 fiscal year, the MRC determined that no adjustment was necessary in 9 of its 39 decisions, but recommended recovery action in 30 situations. Where recovery action is to be taken, the physician may appeal the decision to the Health Services Appeal Board (HSAB). During the 1997/98 fiscal year, one case was appealed.

Where recoveries are to be made, collection begins immediately and physicians are required to repay in full within one year. However, interest is not charged on recoverable amounts until one year after the General Manager's decision to recover. For the 1997/98 fiscal year, approximately \$2.3 million of paid, pre-May 1996 services became recoverable from 30 physicians as a result of MRC recommendations. The recoverable amounts included incorrect billings resulting from physicians misunderstanding the meaning of some service codes in the Schedule of Benefits. The Ministry collected \$800,000 during the year and was owed \$7.3 million by physicians at the end of the year, including approximately \$5 million from prior years.

Where a physician repeats the same behaviour, the recourse available to the General Manager is a re-referral to the MRC. However, in another province sanctions are available, not just a simple repayment of claims as recommended by the MRC. In that province, the right to bill the provincial health plan directly can be removed when the health care provider repeatedly claims for services that were not medically necessary.

In our *1993 Annual Report* we recommended that, to deter misuse of the system by health care providers, the Ministry should consider sanctions against health care providers whose patterns of practice continued to be undesirable. Amendments to the *Health Insurance Act*, passed in 1996, extended the Ministry's powers with respect to financial recoveries, sanctions and obtaining information relating to insured services. While the Ministry has developed a plan to implement certain aspects of the additional powers, the following provisions had not been actioned.



- Physicians objecting to the General Manager's decision to adjust a claim before payment or to recover previously paid fees can request a review by the MRC. Physicians may also request that the review be performed by a single member of the MRC, if the amount of money in dispute is less than a prescribed amount or if the General Manager consents to a review by a single committee member. However, the Ministry has established neither the prescribed amount nor the procedures and criteria pertaining to the General Manager's approval of such requests.
- A physician can now be charged interest on recoverable amounts sooner than previously was the case, provided the Ministry establishes the date from which interest is applicable. However, the Ministry has not established that date, nor has it prescribed the interest rate calculation method.
- A physician is not required to pay for the cost of the MRC review or for the cost of any reconsideration of a review if the General Manager's original decision is upheld.
- A physician's identity, practice location, a description of the situation reviewed and amount to be repaid are not publicized.

A number of years previously, the CPSO discontinued publicizing the results of MRC decisions. While the identity of the physician was not disclosed, the circumstances surrounding the review were presented.

The length of the process involved, the failure to charge interest from the date of the decision to recover, and the lack of sanctions permit continuing misuse of the system by some physicians and may not deter further abuse by others.

### Recommendation

**To deter misuse of the system by health care providers and to expedite the recovery of inappropriate billings, the Ministry should:**

- **exercise its full authority under the *Health Insurance Act* with respect to sanctions and assess the need for further sanctions on those health care providers who are found to be repeatedly abusing the system;**
- **hold orientation sessions and provide reference material to help reduce the incidence of incorrect billings resulting from the misinterpretation of service codes in the Schedule of Benefits;**
- **assess the referral process and work with the Medical Review Committee to improve the timeliness of its reviews;**
- **fill MRC vacancies to decrease the backlog of cases and to expedite the review of new referrals; and**
- **request the MRC to reinstate the practice of publishing its recommendations, thus helping to prevent inappropriate treatments and billings.**

### **Ministry Response**

*The Ministry is applying a full range of sanctions in accordance with the Health Insurance Act, including new powers introduced in 1996 (that is, direct recoveries from physicians). Regulations will be introduced which will apply to cases where services were provided on or after May 1, 1996.*

*The Ministry will participate in education seminars for currently practising physicians and will introduce training for new registrants.*

*The timeliness of MRC reviews will be improved as its size has been tripled and measures have been introduced to reduce the case backlog. The Ministry is committed to handling at least 100 cases annually, either for direct recovery action by the Ministry or for MRC referral. One public member vacancy has now been filled, and the the remaining vacancy will be filled as soon as possible.*

*The Ministry has been advised by the College of Physicians and Surgeons of Ontario that it will recommence publishing MRC case information this fall.*

## **INVESTIGATION UNIT**

The Investigation Unit of the Ministry is responsible for investigating matters pertaining to all ministry programs that have been referred to it by ministry staff or the public. In the 1997/98 fiscal year, the Unit opened 77 OHIP files and closed 23 cases. In the same year, law enforcement agencies laid charges in seven cases.

In May 1997 the Minister of Health appointed a consultant to investigate and propose appropriate recommendations relating to the processes and procedures used by the Ministry to detect, prevent and eradicate fraud in the health care system. The investigation included an assessment of the effectiveness and role of the Investigation Unit. In September 1997, the consultant recommended that an experienced commercial crime investigator be put in charge of the Unit on a temporary basis. Part of the investigator's mandate would be to review the organization of the Unit. The review would include evaluating the abilities of the Unit's personnel, developing policies relating to investigations, meeting with related enforcement groups, and recommending how the public and the Minister are to be informed about the Unit's activities.

The Ministry seconded a staff sergeant from the Ontario Provincial Police to conduct this review. The resulting report indicated that the Unit should be re-engineered to increase its efficiency and effectiveness. In particular, the report identified a need to improve investigative credibility, communications and case management. Ministry management agreed and is implementing a plan to address this need.

While the changes will strengthen the Unit's ability to deal with potential abuses of the system, its effectiveness depends on referrals by ministry staff. Therefore, it is critical that staff understand what constitutes a questionable practice and that criteria be developed for referrals to the Unit.

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## Recommendation

To ensure that irregular practices are reviewed and investigated, criteria and procedures for referring concerns to the Investigation Unit should be developed and distributed to staff members.

## Ministry Response

*The program area staff meets regularly with Investigation Unit staff to discuss and/or seek guidance on suspicious cases. More formalized policies and guidelines regarding referrals to the Investigation Unit will be developed and "signed off" jointly by the program areas and the Unit.*

*The Unit has now been reorganized and a common registrant information tracking and case management system has been introduced. The system consists of several modules developed to share information and direct referral/intervention on all files identified as potential misuse/abuse/fraud.*

## PARAMETERS OF PRACTICE

A physician uses professional judgment to determine whether medical procedures are necessary and which procedures to perform. Where available, standards and guidelines (parameters of practice) can be used by a physician to determine actions to be taken under different scenarios. Parameters of practice help ensure proper care and treatment and assist in identifying and reducing inappropriate or unnecessary medical procedures.

In our *1993 Annual Report*, we noted that some clinical practice parameters had been developed and the development of others was ongoing. We recommended that the Ministry continue its efforts to facilitate the development of parameters of practice in the health care professions. Since then the Ministry has facilitated the development of parameters for facilities licensed under the *Independent Health Facilities Act* and has adopted a legislated mandate for ensuring the implementation of such parameters. Compliance with the parameters is assessed by the College of Physicians and Surgeons of Ontario (CPSO). However, there are currently no province-wide standards or guidelines of practice for most medical procedures.

In 1992 the Ministry and the Ontario Medical Association (OMA) established the Institute for Clinical Evaluation Sciences (ICES). ICES is looking at, among other things, the rates of medical procedures being performed, lengths of hospital stays and drugs being used. ICES attempts to determine the reasons for variations in procedures and treatments being given. Eventually the efforts of ICES may result in guidelines for physicians and public education campaigns. For example, a recent research study by ICES found that members of the medical profession had no clear sense of the appropriate amount of time family physicians should be spending with their patients. Guidelines would help physicians be more consistent in the time they spend with patients.

CPSO and ICES have recognized the need to work together more closely with the OMA and the Ministry to develop practice parameters. During our current audit, a joint Ministry and



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OMA Guideline Advisory Committee was formed for the implementation of practice and referral guidelines.

Under the *Regulated Health Professions Act*, all self-governing colleges of health professions must have developed quality assurance programs by 1997 to address the effectiveness and appropriateness of treatments and to monitor the continuing competence of its members, as well as, changing standards of practice based on patient outcomes. The CPSO has established quality assurance programs under its Quality Management Division, which is separate from the MRC. The CPSO has indicated that its experience with Independent Health Facilities has demonstrated the potential for improved care and cost savings.

However, senior management at the CPSO was concerned that information was not being shared by the Ministry. For instance, amendments to the *Health Insurance Act* permit the Ministry to enter into agreements with private and public sector organizations to collect and disclose information in order to detect inappropriate services. The CPSO believes that, if it were given certain information from the OHIP database, it would be better able to fulfil its quality assurance responsibilities. We also noted that the CPSO does not share its quality assurance information which could be used by the Ministry to follow up inappropriate billings.

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### **Recommendation**

**To improve patient care and help ensure that provincial funding for health care is utilized economically and effectively, the Ministry should facilitate the development of additional parameters of practice in the health care professions.**

The Ministry should pursue sharing information with the College of Physicians and Surgeons of Ontario. The use of any information should be clearly defined and within legislated limitations.

### **Ministry Response**

*The Ministry will continue to work with the 21 regulatory colleges under the Regulated Health Professions Act to strengthen their quality assurance programs. Regulations will be in place for all colleges this year. Encouraging the colleges to develop more and better standards of practice is a component of this work. Colleges are expected to involve their membership and professional associations in developing meaningful standards. As well, the Health Professions Regulatory Advisory Council is undertaking an independent assessment of the colleges' quality assurance programs and will be providing its advice to the Minister in two reports (interim due December 1998; final in year 2000).*

*The Ministry is encouraging the College of Physicians and Surgeons of Ontario to enter into an information sharing arrangement.*



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# MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING AND ONTARIO HOUSING CORPORATION

## Rent Supplement Programs

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The Ministry of Municipal Affairs and Housing has overall responsibility for the administration of social housing programs which were designed to increase the supply of affordable housing in the province. These rental housing supply programs fall broadly into three categories: non-profit housing programs, government-owned housing operated by Ontario Housing Corporation (OHC) and rent supplement programs, which are administered by both the Ministry and OHC.

Under the rent supplement programs, a subsidy is provided to allow tenants to live in accommodation owned by private landlords and certain non-profit and cooperative housing groups. Under a global operating agreement, OHC and Canada Mortgage and Housing Corporation (CMHC) share the cost of subsidizing about 85% of the more than 21,300 units available under various rent supplement programs. The other 15% are subsidized solely by OHC.

Through its network of 54 local housing authorities (LHAs), OHC works closely with the private sector to make suitable accommodation available for households and individuals who qualify for housing assistance. Qualified candidates selected from LHA waiting lists sign a letter of agreement with the LHA to receive suitable subsidized accommodation for as long as they remain eligible under the programs. Subsidized tenants also sign a lease with the landlord requiring them to pay their portion of the rent, as calculated by OHC, directly to the landlord.

Under the terms of a rent supplement agreement, a landlord must provide a specified number of rent supplement units for which OHC pays the landlord the difference between the geared-to-income rent and the rent negotiated with the landlord.

The Ministry's regional offices oversee certain CMHC-supported non-profit and cooperative housing groups that provide rent supplement units. Unlike programs involving private landlords, these groups have been delegated responsibility for determining eligibility and geared-to-income rents for their rent supplement tenants and are required to fill only one half of their rent-supplement-unit vacancies with candidates from the LHAs' waiting lists.

The following charts summarize the number of units and total expenditures for each of the rent supplement programs administered by the LHAs and regional offices for the last two years.

## Rent Supplement Units and Expenditures

Program and Share of Subsidy (fed/prov)	OHC Expenditures for the Years Ended December 31, 1996 and 1997*							
	Units Under Subsidy		Federal Share \$000s		Provincial Share \$000s		Total \$000s	
	1997	1996	1997	1996	1997	1996	1997	1996
<i>Administered by LHAs</i>								
Commercial (50/50)	10,244	10,852	26,650	27,962	26,649	27,962	53,299	55,924
Federal/Provincial (60/40)	1,635	1,735	6,308	6,605	4,206	4,403	10,514	11,008
Provincial (0/100)	3,160	3,440	—	—	20,900	24,205	20,900	24,205
<i>Administered by Regional Offices</i>								
Community Sponsored (50/50)	4,362	4,362	11,537	11,339	11,537	11,339	23,074	22,678
Cooperative Tenure Support (60/40)	1,920	1,920	6,417	6,389	4,278	4,259	10,695	10,648
<b>Total Rent Supplement</b>	<b>21,321</b>	<b>22,309</b>	<b>50,912</b>	<b>52,295</b>	<b>67,570</b>	<b>72,168</b>	<b>118,482</b>	<b>124,463</b>

	Ministry Expenditures for the Years Ended March 31, 1997 and 1998							
	Units Under Subsidy		Federal Share \$000s		Provincial Share \$000s		Total \$000s	
	1998	1997	1998	1997	1998	1997	1998	1997
Ontario Community Housing Assistance Program (OCHAP) — See Note**	3,928	3,928	—	—	12,568	14,687	12,568	14,687

*Sources: Ontario Housing Corporation, Resource Planning and Budget Management Branch, and Ministry of Municipal Affairs and Housing*

\* Included in the OHC expenditures are administrative costs of \$3.8 million for 1997 (\$3.9 million for 1996). On a per-unit per-month basis, rent subsidies averaged \$431 in both 1996 and 1997.

\*\* Note: This program is considered a non-profit housing program for administrative purposes and, therefore, an expenditure of the Ministry. Rent subsidies are provided entirely by the Ministry through its regional offices and have been included in our audit scope. CMHC subsidizes the annual operating costs of these non-profit and cooperative housing groups in the amount of 2% of each project's original capital cost.

In 1994, OHC began terminating all agreements with landlords under the provincial program, and individual units are being terminated as tenants move out. In 1996, this constraint strategy was extended to the cost-shared programs but was suspended in 1997 pending the outcome of federal-provincial negotiations on social housing programs. Nevertheless, where landlord agreements had terminated, cost-shared units were also being terminated as tenants move out.

In January 1997, Cabinet announced its intention to devolve the principal role in the funding and administration of social housing, including rent supplement programs, to municipalities. Cabinet approved a three-stage devolution strategy which included:

- funding transfer as of January 1, 1998;

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- approval for the reform and devolution of social housing administration by the summer of 1998; and
  - full implementation by January 1, 2000.

To reduce any risk to taxpayers and other program stakeholders that may arise from this transfer of responsibilities, the Ministry and OHC need to ensure that programs are being satisfactorily administered before devolution is fully implemented.

## OBJECTIVE AND SCOPE

Our audit objective was to assess whether the Ministry and OHC had satisfactory systems and procedures in place to manage rent supplement programs economically, efficiently and in compliance with requirements, including procedures to measure and report on program results.

Our assessment was based on audit criteria which management agreed were appropriate for cost-effective administration of rent supplement programs. Principally, it is important for management to ensure that:

- subsidies are provided only to eligible households and in the amounts to which these households are entitled;
- equitable tenant placement procedures are established and adhered to;
- rents paid to landlords do not exceed legal and market rents; and
- landlords comply with the terms of their rent supplement agreements.

Our audit was conducted in accordance with professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Specifically, our audit included work at OHC's head office, as well as at four local housing authorities and three ministry regional offices which together administered the majority of rent supplement units. We also surveyed the practices followed by most other local housing authorities and regional offices that administer rent supplement units. Our work was conducted from September 1997 to February 1998 and focused primarily on activities occurring in 1997.

We reviewed related audit work recently completed by the Ministry's Audit Services Branch and used it to ensure that our audit avoided any duplication of effort and addressed important issues raised in its reports.

Financial controls over the payment of and accounting for rent subsidies and related administrative costs are examined each year as part of our audit of the financial statements of OHC. We have reported separately to the OHC board on those financial statements. Control matters that arose from the financial statement audit were communicated to management.

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## OVERALL AUDIT CONCLUSIONS

We concluded the Ministry and OHC should take action to ensure that rent supplement programs are delivered more economically, efficiently and in compliance with requirements. Procedures to measure and report on results also required improvement. Such actions include:

- strengthening local oversight and reporting responsibilities for the programs before transferring program delivery responsibilities to municipalities;
- including the plans and results of rent supplement programs in published Business Plans and annual reports;
- making greater use of income tax information to verify subsidy entitlements and amounts;
- monitoring by regional offices for compliance by non-profit and cooperative housing groups with agreement requirements for eligibility, tenant selection and rent determination;
- obtaining information from the Ministry of Community and Social Services to help determine the continuing eligibility of tenants for rent subsidies as well as the appropriateness of rent subsidy amounts;
- negotiating with stakeholders the removal of program and agreement restrictions that limit the ability of LHAs to reduce rent subsidies through more rigorous negotiation of rents with landlords; and
- using sanctions in cases where landlords fail to address orders to comply with the *Ontario Fire Code* and maintenance requirements.

### **Overall Ministry/Corporation Response**

***The government devolved the financial responsibility of the former provincial subsidy for social housing to municipalities as of January 1, 1998. In preparation for the transition to local administration, the Ministry has committed to reforming social housing programs, although no final decisions have yet been made. In the current transitional state, it may be premature to undertake any major program review or change before the direction of the program review is known. As well, Ontario Housing Corporation must operate the program within the provisions of the Canada/Ontario Global Agreement.***

***Nevertheless, the Ministry and the Ontario Housing Corporation will move forward on improvements to the administration of the rent supplement program, and will continue to exercise due diligence in its responsibilities.***

***Ontario Housing Corporation, for example, has several initiatives under way, such as benchmarking and sharing of best practices in other business areas, and will include the rent supplement program in these initiatives where possible.***



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# DETAILED AUDIT OBSERVATIONS

## PROGRAM ACCOUNTABILITY AND RESULTS REPORTING

As stated earlier, responsibility for administering federally cost-shared rent supplement programs has been delegated to the province under agreements with Canada Mortgage and Housing Corporation. Provincial administrative responsibility is split between the Ministry's regional offices, which deal with non-profit and cooperative housing groups, and OHC's local housing authorities, which deal with private landlords.

The variety of programs and division of responsibilities between governments and organizations has made the delivery of rent supplement programs complex and accountability for programs more difficult to establish. We noted the following gaps and anomalies in the programs' management and reporting structure that need to be addressed before administrative responsibilities are transferred to municipalities:

- For budgetary and financial reporting purposes, all rent supplement expenditures were reported by OHC except OCHAP rent subsidies, which were included in the Ministry's non-profit housing program expenditures. However, while the Ministry's 1997/98 Business Plan included targets related to subsidies on OHC's own properties, it did not mention rent supplement programs.
- Budgets and financial results for programs administered by LHAs were prepared and reported to the OHC board but not to the local boards. Local governing boards had no real oversight role for the programs although their staff had most of the administrative responsibility. They or their successors will have even more responsibility when the devolution to municipalities has been fully implemented.
- While financial reporting and policy setting was centralized, procedures were not sufficient to ensure that LHAs and regional offices complied with policies or to identify and communicate better practices. We noted some inconsistencies and deficiencies in the procedures followed by LHAs in delivering programs, including income verification efforts, rent negotiations, unit inspections and tenant placement practices. We also found inconsistencies and deficiencies in procedures followed by regional offices to ensure that non-profit and cooperative groups complied with their rent supplement agreements. These inconsistencies and deficiencies are discussed in greater detail in later sections of this report.
- Administrative costs for the programs were not monitored separately from other LHA administrative costs, and the method of allocating costs resulted in wide variations in per-unit costs. Among LHAs with significant numbers of rent supplement units to administer, costs allocated ranged from \$50 to \$376 per unit in 1997. Consequently, economic and efficient delivery of the programs was difficult for management to benchmark and track.

## Recommendation

To strengthen accountability for the economical and efficient delivery of rent supplement programs before administrative responsibility is transferred to municipalities, the Ontario Housing Corporation should ensure that:

- plans and results for rent supplement programs are included in the combined Ontario Housing Corporation/ministry Business Plan and annual report each year;
- approved policies and procedures as well as better practices in program delivery are followed by local housing authorities and ministry regional offices;
- business planning and reporting processes consolidate locally the activities and results of all rent supplement programs delivered by both local housing authorities and ministry regional offices; and
- administrative costs are consistently accounted for and benchmarked to allow them to be meaningfully assessed and compared.

## Ministry/Corporation Response

- *Ontario Housing Corporation and the Ministry will examine the feasibility of including plans and results for the rent supplement program into their Business Plans and annual reports.*
- *Ontario Housing Corporation will review its mechanisms for communicating approved policies and procedures and best practices to ensure they are timely and effective.*
- *Ontario Housing Corporation will incorporate the rent supplement program in its business planning and reporting processes. In consultation with the Ministry, Ontario Housing Corporation will consider the feasibility of consolidating local and regional activities and results for all rent supplement programs.*
- *The Ministry has incorporated operational review targets in Business Plans and performance agreements and will establish processes to monitor results.*
- *Currently, rent supplement administrative overhead is accounted for by most housing authorities as a formula-driven proportion of budget. A review of how administrative costs are allocated will be done. Ontario Housing Corporation will also consider rent supplement costs as part of its benchmarking initiative.*

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## ELIGIBILITY AND RENT DETERMINATION

### PROGRAMS ADMINISTERED BY LOCAL HOUSING AUTHORITIES

Eligibility criteria for obtaining housing are the same for all applicants regardless of whether they are to be placed in units owned by OHC or in rent supplemented units owned by private landlords. Applicants must be over 16 years of age, permanent residents of Canada and in need of housing in Ontario. LHAs determine eligibility, select tenants as units become available, calculate tenant rents and subsidies, and verify household incomes annually.

Our testing of applicant eligibility and methods of tenant selection at the LHAs we visited revealed that satisfactory procedures were in place and that the LHAs were complying with the procedures in all significant respects. Apart from a few minor exceptions, rent calculations were being performed in accordance with established procedures.

Tenant incomes are verified annually to determine both subsidies and rents to be paid by the tenant. In August 1997, the OHC board resolved to require LHAs to use income tax information as part of the income verification process. However, some of the LHAs we visited and 72% of the larger LHAs we surveyed were not requesting tax information as part of the annual verification process. LHAs we visited expressed concern that requiring income tax information from each household every year was not practical or cost effective. One LHA we visited developed a risk-based approach to requesting tax information from households and had, over the last three years, detected several cases where tenants had misrepresented their income or circumstances.

#### **Recommendation**

To better ensure that rent subsidies are not higher than they should be because of undeclared income or inaccurate information provided by tenants, the Ontario Housing Corporation should establish a cost-effective approach to income verification that reflects better practices already in use at some local housing authorities, including the selective use of tax returns and assessments.

#### **Corporation Response**

*The Ontario Housing Corporation will review its income verification practices with a view to implementing a more streamlined process for income verification in the local housing authorities, which will include the sharing of best practices among local housing authorities. This will be done in the context of social housing reform and local services realignment.*



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## PROGRAMS ADMINISTERED BY REGIONAL OFFICES

Several non-profit and cooperative groups administered by the Ministry's seven regional offices receive operating subsidies exclusively from CMHC while the Ministry cost-shares and administers the rent supplement subsidy for an agreed-upon number of units owned by these groups. Responsibility for determining eligibility, rent calculations and income verification has been delegated to these groups. Groups are required to file audited financial statements annually with CMHC and with the Ministry's regional offices. Metro Region administers over 6,000 units, or about 60% of all units administered by the Ministry's regional offices.

### COMPLIANCE REVIEWS

Both CMHC and regional office staff visit these groups periodically to assess whether they have complied with their respective operating and rent supplement agreements. Regional offices we visited or contacted stated that they normally did not receive the results of reviews carried out by CMHC nor did they receive copies of any management letters issued by group external auditors following their annual audits.

Our review of files and discussion with regional offices revealed significant differences in the number and frequency of compliance reviews carried out. In one office we contacted, for example, staff conducted compliance reviews of all groups over a three-year cycle while, in another office, staff conducted reviews only when they received complaints about a particular group. Still another office conducted reviews only when the rent supplement agreement was up for renewal, which could be as infrequently as once every 15 years for some groups.

Of the programs administered by regional offices, the Ontario Community Housing Assistance Program (OCHAP) administered by non-profit housing program staff had been subject to compliance reviews that were sufficiently frequent and comprehensive to effectively monitor whether groups were complying with the terms of their agreements. However, compliance reviews were less frequent for the Cooperative Tenure Support and Community Sponsored Housing rent supplement programs. As a result, regional offices had less assurance that groups funded under these programs were in compliance with the terms of their rent supplement agreements.

Our examination of files confirmed the importance of compliance reviews. For example, the Metro Regional Office, which was the most diligent of the regional offices we visited in conducting compliance reviews, discovered problems in several of the projects reviewed in 1997. On our visits to a sample of projects in each region that had not recently been visited by ministry staff, we found similar problems, including weaknesses in income verification, rent calculation errors resulting in subsidies that were higher than necessary, and some tenants occupying more spacious accommodation than they were entitled to. Only one group visited was using tax information to verify tenant incomes.

Two notable examples also came to our attention. A group funded under the Cooperative Tenure Support Program that had not been visited for years by the Central Regional Office was recently discovered by CMHC staff to have had several problems, such as not carrying out income verifications of tenants and receiving rent subsidies for units long after the occupants had moved out. Another group under this program had experienced severe vacancies and had



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allowed subsidized tenants to occupy larger units than they were entitled to. A property management firm had to be hired to rectify the problems.

## **COMPLIANCE WITH TENANT SELECTION REQUIREMENTS**

Rent supplement agreements call for at least half of all vacancies in units subsidized under these programs to be filled from LHA waiting lists. However, the majority of groups we visited in three regions filled most of their vacancies from their own waiting lists. For example, we reviewed placements made in 1997 by groups we visited in the large Metro Region and found that 83% of placements reviewed were made from the groups' own waiting lists.

One project we visited had left 15 units vacant for periods of between 8 and 12 months over 1996 and 1997 rather than request referrals from the Metropolitan Toronto Housing Authority. Another project we visited with 55 rent supplement units had operated from January 1996 to August 1997 with only 60% of them occupied.

Although the Metropolitan Toronto Housing Authority was not providing a rent subsidy for these vacant units, applicants were not getting access to available accommodation. In Metro Region, compliance with tenant selection requirements is particularly critical because, as of December 1997, there were over 40,000 eligible applicants on the Region's Housing Registry, including many applicants in critical need. For example, over 100 applicants were victims of family violence.

### **Recommendation**

**To better ensure that non-profit and cooperative housing groups comply with their rent supplement agreements, the Ministry should:**

- ensure that the results of reviews conducted by Canada Mortgage and Housing Corporation and comments reported to such housing groups by external auditors are communicated to regional offices on a timely basis;
- develop a risk-based strategy that incorporates the information not currently obtained from external auditors and Canada Mortgage and Housing Corporation to plan and conduct compliance reviews for all rent supplement programs; and
- explore options for corrective action when groups fail to comply with important requirements of their agreements.

### **Ministry Response**

- *The Ministry will get agreement from Canada Mortgage and Housing Corporation to share audit results with regional offices. Also, the Ministry will review its operating agreements with non-profit and cooperative housing groups regarding the issue of audit results, with a view to getting copies of reports directly from the groups' external auditors as well.*
- *The Ministry will incorporate this information into developing a strategy for compliance reviews of rent supplement programs.*
- *The Ministry will review program requirements and agreements with a view to developing additional remedies for non-compliance.*

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## COORDINATION WITH THE MINISTRY OF COMMUNITY AND SOCIAL SERVICES

The Ministry of Community and Social Services, as part of its commitment to reform Ontario's welfare system, began several anti-fraud initiatives. The early results of one such initiative were published in October 1997.

In total, the Ministry reported that over 2,000 cases of the more than 18,000 cases they had completed investigating due to allegations received had resulted in a reduction or termination of assistance. Major categories of allegations reported and substantiated included undeclared spouses (42% of cases) and undeclared income sources (30% of cases).

Almost half of the households supported in private sector accommodation were receiving some form of social assistance in 1997. LHAs generally rely on the Ministry of Community and Social Services to verify the income and circumstances of social assistance recipients. It is therefore important that the details of confirmed cases of misrepresentation be shared with LHAs on a timely basis so that LHAs can determine any impact on rent subsidies.

### Recommendation

**To better ensure that households are not being over-subsidized, the Ontario Housing Corporation should establish information-sharing arrangements with the Ministry of Community and Social Services.**

**Local housing authorities should use the information to determine whether individuals who have been investigated and have had their social assistance terminated or reduced are also ineligible for rent subsidy or paying less rent than required.**

### Corporation Response

- *Opportunities for sharing information have been under discussion with the Ministry of Community and Social Services. Information sharing is, however, restricted by the Freedom of Information and Protection of Privacy Act.*
- *Coordination with both the Ministry of Community and Social Services and municipalities will be necessary as social assistance administration, including social housing programs administration, is being transferred to municipalities.*

## NEGOTIATIONS AND AGREEMENTS WITH LANDLORDS

### NEGOTIATION OF GUARANTEED RENTS

Rent negotiations with non-profit and cooperative groups are not administered by regional offices because market rents are negotiated by CMHC as the primary supporter of these

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projects and are based on CMHC's own market research statistics. According to CMHC staff, rents are also monitored at the time of financial statement reviews to ensure that housing charges reflect market charges for similar types of accommodation.

Under the terms of the rent supplement agreement with a private landlord, the LHA and the landlord can annually renegotiate the full monthly rent for subsidized units to reflect the prevailing market for similar accommodation in the area.

However, a serious limitation with the design of rent supplement programs is that only the smaller federal/provincial program, which involves some 1,600 units, permits the replacement of one unit with another in the event that an existing unit must be terminated. This restriction limits the ability of LHAs to leverage negotiations with an existing landlord or to obtain cheaper or more suitable accommodation for tenants where choice exists in the market. Rent negotiations heavily favor landlords in such circumstances since the only alternative is to terminate needed units if the LHA is dissatisfied with rents or building conditions.

Even where cheaper or more suitable accommodation exists in a community, tenants cannot legally be required to move under the terms of their letters of agreement with the LHA. To strengthen their negotiating position, LHAs also need some flexibility to move tenants. This flexibility could be limited to specific circumstances to minimize inconvenience to tenants.

We understand that negotiations may resume with CMHC to transfer to the province the responsibility for administering all housing assistance programs in Ontario that CMHC administers. As a minimum, these negotiations need to achieve the flexibility to permit a terminated unit to be replaced and tenants to be moved if it is necessary or beneficial to do so.

In 1995, to overcome another limitation to effective rent negotiations, the Ministry drafted a new rent supplement agreement with a stronger arbitration clause which could be exercised in the event of a dispute over market rents. The previous agreement allowed either party to refuse rent adjustments without recourse to the other party.

However, because of the constraint strategy, LHAs were directed to implement the new agreements only in cases where they wished to reinstate a previously terminated agreement. Without wider use of the new agreements, LHAs in areas with sufficient rental housing choice and, therefore, competition to reduce rents, might be prevented from realizing savings during the negotiation process.

Our analysis suggested that savings from more rigorous rent negotiations are possible, if these program design and agreement restrictions are removed. Specifically, we compared the rents paid by large LHAs to local market averages published by the CMHC. Of the LHAs with significant numbers of rent supplement units, we identified five that had maintained their negotiated rents at or below market averages and seven that paid rents which significantly exceeded local averages despite area vacancy rates that supported sufficient choice and competition. If the published average market rents are indicative of the rents charged by properties comparable to those rented by the LHAs and LHAs had the freedom to negotiate with other landlords, then subsidies paid by some LHAs might be reduced by as much as \$3 million annually.

We also believe that further savings are possible from more rigorous rent negotiations even with existing restrictions. For example, in 36% of the properties we selected for rent reviews at the LHAs we visited, the guaranteed rent exceeded the market rent, which we determined by



calling the property, surveying nearby properties and checking ads in local publications. We estimated that renegotiations to obtain current market rents in those properties would result in annual savings of approximately \$450,000. The rent supplement coordinators in the LHAs we visited indicated that local publications, rent rolls of buildings and rents of nearby buildings were all checked prior to negotiating rents with landlords. However, we could not determine whether such research was carried out for the properties we tested because it was generally not documented.

### Recommendation

To ensure that guaranteed rents are at or below local market rents and to strengthen the local housing authorities' contractual position, the Ontario Housing Corporation should:

- negotiate more flexible agreements so that, in limited circumstances, units can be replaced and tenants can be required to move;
- require local housing authorities located in areas where vacancy rates support sufficient choice and competition to negotiate for the new rent supplement agreement wording on renewal dates; and
- collect and share information on best practice approaches to negotiations with landlords and remind local housing authorities to document the results of their market research in preparation for negotiations.

### Corporation Response

- *Unit replacement is limited under current federal-provincial agreements and provincial policy regarding new rent supplement units. The new federal-provincial agreement, once negotiated, is expected to enable the flexibility recommended.*
- *Most agreements with landlords are worded so that they renew under the same terms and conditions, unless a new agreement is mutually agreed upon or either party serves notice of termination. Landlords must agree to changes to existing agreements.*
- *Housing authorities will be directed to ensure full documentation of researched market rents.*
- *Ontario Housing Corporation has several initiatives under way, such as benchmarking, in which sharing of best practices is included. We will include the rent supplement program in this where possible.*

## PROPERTIES WITH HIGH SUBSIDIES

As of December 1997, four properties involving about 300 units in the rent supplement portfolios of two LHAs we visited significantly exceeded average rents for their areas because of the high quality of accommodation. These units were 100% subsidized by OHC. The agreements were originally entered into in 1989 and 1990, around the peak of the housing



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market in the Greater Toronto Area. At the time the unit subsidies were much lower than those for newly constructed non-profit and cooperative housing projects.

Tenants in these four properties not only had high quality accommodation but also had access, at a nominal cost, to amenities not available to most other geared-to-income households. For example, many units included a washer, dryer, dishwasher, microwave and air conditioning, as well as access to a pool and sauna.

In 1994, OHC renegotiated many of the rents for these units and, as a result, reduced the monthly subsidy by \$116,000. Despite these efforts, at the time of our audit, monthly rents for these units ranged from \$900 to over \$1,300 for a two-bedroom apartment. The average monthly per-unit subsidy was over \$700 as compared to an average of \$431 for the entire rent supplement unit portfolio. For perspective, the high market rents for these units result in annual subsidies that are over \$1.3 million more than for units rented at Toronto market averages.

Also in 1994, as part of a cost constraint strategy, the OHC board resolved to terminate the agreements with the landlords and to reduce the number of subsidized units as tenants move out. Since 1994, about half of the units have been terminated. However, the existing letters of agreement with tenants cannot be cancelled as long as the tenants continue to qualify and comply with them. Few tenants willingly move from such superior accommodation.

As a minimum, rent determination policies could include a greater surcharge than currently exists for accommodation not available to the majority of geared-to-income tenants. This would be fairer, reduce the excessive subsidies and would still allow tenants to remain in these units if they are willing and able to pay the difference.

### **Recommendation**

**To further reduce rent subsidies and to ensure that all geared-to-income tenants are treated equitably, the Ontario Housing Corporation should consider the feasibility of introducing greater surcharges to the tenant portion of rents for units in properties offering superior accommodation.**

### **Corporation Response**

***Ontario Housing Corporation is already considering ways to reduce subsidy on high-cost rent supplement units. Ontario Housing Corporation will review its utility charges and allowances used for rent-geared-to-income calculations, taking this recommendation into account. The strategies will have to be implemented within the limitations of existing agreements with tenants because most of these rent supplement units are being deleted as current tenants move out.***

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## COMPLIANCE WITH LEGAL AND MAINTENANCE REQUIREMENTS

The rent supplement agreement stipulates that the landlord must keep the units and property in a good state of repair, clean and fit for habitation. The former *Rent Control Act* and the new *Tenant Protection Act* also contain provisions requiring landlords to properly maintain their properties.

Periodic inspections of units by LHAs help to ensure that maintenance requirements are being met by landlords. However, we found that some LHAs inspect all vacated units while others inspect units only if a complaint is received or if a landlord is claiming for damages.

We noted examples of units not properly maintained in the rent supplement portfolio of the Metropolitan Toronto Housing Authority. The inadequate maintenance of units contributed to prolonged vacancies as prospective tenants continually refused these units upon referral. For example, one building with five vacancies received referrals ranging from four to nine candidates, depending on the unit. Comments resulting from candidate refusals included: "unit needed to be cleaned and repaired" to "unit not suitable." Four of the five units were vacant for over three months before being rented to subsidized tenants.

Under the rent supplement agreement, landlords are entitled to receive the full negotiated rent from the LHA while units are vacant as long as the landlord does not unreasonably delay the notification of vacancy or the selection of an applicant. Although agreements allow for the suspension of subsidies when landlords are found not to be in compliance with the agreement, including maintenance standards, this sanction was not imposed by Metropolitan Toronto Housing Authority. Termination of the agreement was not considered because of the demand for affordable housing in the area.

LHAs did not routinely contact local municipalities' building or fire departments to determine whether there were outstanding repair orders to rectify *Ontario Building Code*, *Ontario Fire Code* or property standards violations prior to renewing their agreements with landlords. LHAs we visited stated that municipalities were not required to disclose such information to them and were therefore reluctant to do so. Our own contact with two municipalities uncovered some buildings housing rent-supplemented tenants that had serious *Ontario Fire Code* violations.

### Recommendation

**To better ensure that landlords comply with the building maintenance requirements of rent supplement agreements, the Ontario Housing Corporation should:**

- **apply a risk-based approach whereby, for certain properties, units are inspected every time a tenant is replaced or more frequently if deemed necessary;**
- **assist local housing authorities to obtain any information regarding landlord non-compliance with the *Ontario Fire Code* or the *Ontario Building Code* prior to renewing their rent supplement agreements; and**
- **suspend payments to landlords when maintenance standards have not been met.**

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### ***Corporation Response***

- *Ontario Housing Corporation will review its inspection policy and procedures with a view to improving its effectiveness.*
- *Ontario Housing Corporation will work with local housing authorities to develop a strategy to obtain this information.*
- *Under the terms of the agreement with landlords, Ontario Housing Corporation will make every effort to enforce its agreement and ensure that the rent supplement landlords' buildings comply with maintenance standards and codes. This will include consideration of suspension of payment where there are outstanding work orders and codes are not being complied with.*

# Financial Controls Review

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**3.08**

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The mandate of the Ministry of Natural Resources is to achieve the sustainable development of the province's natural resources, including the development of the economies and communities that depend on these resources. The Ministry's goals are to ensure the long-term health of ecosystems by conserving soil, aquatic, forest and wildlife resources. It is also responsible for the protection of people and property from the threat of forest fires, floods and soil erosion.

To accomplish these goals, the Ministry spent \$521 million during the 1997/98 fiscal year, and collected \$448 million in revenue. Expenditures consisted of \$252 million for staff salaries and benefits and \$269 million for other expenditures which included primarily the purchase of supplies, services and equipment.

## OBJECTIVES AND SCOPE OF REVIEW

The objectives of our review were to assess the adequacy of the Ministry's financial controls, systems and procedures for ensuring that:

- expenditures were properly authorized, processed and recorded; and
- revenues were properly billed, collected and recorded.

The criteria used to assess the financial controls were discussed with and agreed to by ministry management. These criteria provided a framework for our review of the Ministry's controls, systems and procedures.

Our review was performed in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our review, which was substantially completed in April 1998, included an examination and analysis of documentation and discussions with ministry staff at head office in Peterborough as well as with staff at regional and district offices. We also reviewed plans and reports issued by the Ministry's Audit and Evaluation Section and, where relevant, we relied on the work ministry audit staff had performed.

## OVERALL REVIEW CONCLUSIONS

We found a number of significant weaknesses in the Ministry's financial controls, systems and procedures. Controls were not sufficient to ensure that expenditures were properly authorized,



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processed and recorded. As well, financial controls over water power fees were weak but the controls over the billing, collection and recording of other revenue were adequate, although we found some weaknesses which needed to be addressed. Specifically, we noted:

- Controls over the \$9.5 million spent annually through the Ministry's accountable advance account were weak, thus permitting errors and irregularities to occur and go undetected. At the time of our review, some \$1.3 million of errors related to prior years' expenditures had to be expensed and further investigation by the Ministry is necessary to fully ascertain the nature of these errors. Also, advances to employees amounting to \$800,000 as of March 1998 had not adequately been reviewed or followed up for collection for several years and could now be difficult to collect.
- Weak controls over payroll permitted employees to be paid when they did not work and to be paid incorrect termination amounts.
- The risk of errors and irregularities in \$269 million of other expenditures was high due to inadequate segregation of duties, poor supervisory controls and deficient payment processing controls.
- Procedures were required to ensure that policies for competitive tendering were followed.
- Improvements were required over the billing and collection of revenue including procedures to ensure that all water power fees are billed and collected.
- The eligibility of expenditures paid out of the Forest Renewal Trust required clarification so that only properly supported payments are made.
- Many of the concerns raised in this report had previously been brought to management's attention through work performed by the Ministry's Audit and Evaluation Section. However, management had not fully addressed all of internal audit's concerns and had often not put the necessary controls in place to ensure that proper practices were followed.

### **Overall Ministry Response**

***The Ministry will continue to strengthen its internal financial controls.***

***The process of improving financial controls began with the migration to a new integrated financial system in 1993 and continues presently with migration of our revenue systems.***

***Coincident with the move to a new accounting system was a move from a "preventive" control environment to a more "detective" environment in order to reflect the new capacities of the system.***

***At the same time, the Ministry has re-engineered its organizational structure, introduced new accounting practices and initiated extensive staff communication and training concerning accounting procedures and controls.***

***We will accelerate our efforts in this direction.***

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# DETAILED REVIEW OBSERVATIONS

## ACCOUNTABLE ADVANCE ACCOUNT

The majority of the Ministry's expenditures are paid through government corporate systems operated by Management Board Secretariat (payroll) and the Ministry of Finance (other expenditures). These payments are made as instructed by the Ministry, and the Ministry retains responsibility for them. The Ministry of Finance advances funds to the Ministry which are deposited in a bank account under the Ministry's name. This account is termed the accountable advance account.

The accountable advance account is used to pay for expenditures which cannot proceed through the normal systems due primarily to a need for expediency. The Ministry uses the account for payments such as salary advances for new employees, wages for temporary emergency firefighters, employee travel expenses and petty cash fund reimbursements.

For the 1997/98 fiscal year, approximately \$9.5 million of payments were processed through the accountable advance account. These payments included both payroll and other expenditures. As of March 31, 1998, the Ministry had a current advance amount of \$4 million owing to the Ministry of Finance.

## ACCOUNT RECONCILIATIONS

An operating agreement between the Ministry of Natural Resources and the Ministry of Finance concerning the accountable advance account was entered into in the spring of 1993. The purpose of this agreement was to provide the Ministry of Finance with assurance that any funds advanced were properly accounted for and managed. However, we noted the Ministry had been non-compliant with the terms of this agreement.

For example, the agreement specifies that the Ministry will not only reconcile the account monthly to its internal accounting records but will also designate a person to review the reconciliations quarterly and forward a statement of compliance to the Ministry of Finance. However, since the account had not been reconciled in over five years, the statements sent to the Ministry of Finance did not constitute statements of compliance and did not provide any assurance that the account had been reconciled or reviewed. As of March 1998, the most recent reconciliation had been prepared in February 1993, even though the Ministry's Internal Audit section had brought this weakness to management's attention in March 1994.

Furthermore, the accountable advance amount as recorded in the ministry records was inaccurate, and the records had not been regularly updated for all payments into and out of the account. Without timely reconciliations, the Ministry did not have assurance that all transactions were appropriate and promptly and accurately accounted for. Consequently, any errors or irregularities were likely to have gone undetected.

We informed the Ministry of our concerns and, in May 1998, the Ministry informed us that it had reconciled the account to the amount advanced from the Ministry of Finance. This reconciliation revealed a \$1.3 million net error. According to the Ministry, that amount pertained to a number of errors such as cheques written and not recorded on tally sheets, adding errors, incorrect adjustments, and cheques that were written, cashed and recorded, but for which the Ministry had not requested reimbursement from the Ministry of Finance. We were informed

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that in order to clear the amount, the Ministry would have to expense this \$1.3 million. Further investigation by the Ministry is necessary to determine the nature of these errors and that the amount represents all the errors that were made.

### **Recommendation**

To ensure that all payments made through the accountable advance account over the past five years were appropriate, the Ministry should fully reconcile the account and thoroughly investigate the \$1.3 million net error.

To ensure that subsequent records are properly maintained and that any errors or irregularities do not go undetected, the Ministry should:

- reconcile its accountable advance account to its own records and to the records maintained by the Ministry of Finance on a monthly basis; and
- review the reconciliations before forwarding the required statements of compliance to the Ministry of Finance.

### **Ministry Response**

*The Ministry will implement the recommendations in this audit.*

*In compliance with the Accountable Advance Operating Agreement with the Ministry of Finance, the Ministry has made significant improvements to its financial information tools and achieved a 75% reduction in its outstanding advances (\$2.5 million to \$645,000). Additionally, the Ministry centralized payments for utilities, office equipment, telephones, travel claims and the purchasing card.*

*Following completion of these activities, the Ministry completed an internal reconciliation of the account for March 1998. Virtually all of the \$1.3 million variance was associated with a brief period late in the 1996/97 fiscal year when the Ministry was totally dependent on manual processes to maintain its core businesses. The Ministry has approved a strategy to rectify this error and appropriately disburse the expenditures.*

*The Ministry now reconciles the account monthly and will report to Treasury on a regular basis.*

## **SEGREGATION OF DUTIES**

One of the most fundamental elements of good internal controls is a proper segregation of key functions so that no employee or group is in a position to perpetrate and conceal errors or irregularities in the normal course of their duties. However, we found no effective segregation of duties regarding the accountable advance account. For example, an employee at head office could authorize transactions on the computerized expenditure system, maintain the blank



cheques, ordered supplies of blank cheques, had access to the cheque signature stamp, maintained the numerical continuity of used and unused cheques, and could access the payroll sub-system to make changes to employees' addresses or cheque pick-up locations. This same employee was also responsible for reviewing the bank account statements and returned cheques, updating the records for employee advances, and making journal entries on the financial system.

For expenditures processed through the accountable advance account, only one person was needed to enter transaction information into the financial system and process a payment. The lack of a second person to review and authorize the transaction increases the risk that errors and irregularities could go undetected. Currently, more than 50 ministry organizational units across Ontario process transactions and issue cheques on the accountable advance account. Given the lack of segregation of duties at head office and similar concerns expressed by Internal Audit staff regarding other organizational units, control weaknesses may be present throughout the Ministry. Consequently, we consider controls over the millions of dollars flowing out of the account to be extremely weak.

### **Recommendation**

**To ensure that employees cannot perpetrate and conceal errors or irregularities in the accountable advance account, the Ministry should ensure that, at all office locations, appropriate internal controls are in place including a proper segregation of key financial functions.**

### **Ministry Response**

***The Ministry will implement the recommendations in the audit and will immediately increase the separation of processing and corporate responsibilities in head office. The Ministry will review and ensure appropriate separation of duties in all office locations.***

## **CHEQUE SIGNING CONTROLS**

Cheque signing controls at the Ministry's head office were weak because the stamp with the required dual signatures which is used to sign cheques is kept in an unlocked drawer during business hours. Staff who prepare and process cheques also have access to and custody of the signature stamp. Dual signatures are intended to ensure that no one individual is in a position to perpetrate and conceal errors or irregularities in the normal course of duties. The use of a signature stamp accessible to several individuals defeats the purpose of dual signing control. Moreover, Internal Audit staff expressed concern that some of the other 56 locations outside of head office also use signature stamps to sign cheques for the accountable advance account with a similar lack of control.

Also, authorized cheque signers should be separate from the staff who process and record cheques, and all cheques should be signed manually or by way of a machine which requires dual keys for its operation. The keys should also be under the control of staff who do not have other accountable advance functions.



Manual accountable advance cheques are used for rush payments when there is insufficient time to first process a transaction through the financial system. Instead the cheque is simply written or typed and the payment information is required to be subsequently entered into the financial system. Manual cheques therefore pose increased risks of errors and irregularities. Given the increased risk, the Ministry should consider alternatives to limit the number of manual cheques produced and subject manual cheques to increased scrutiny.

### **Recommendation**

**To enhance controls over accountable advance cheque processing and to ensure that no single individual can process cheques independently, the Ministry should:**

- **discontinue the widespread use of signature stamps;**
- **process cheques using procedures such as dual manual signatures or a dual key automated system; and**
- **significantly strengthen controls over manual cheques.**

### **Ministry Response**

***The Ministry will implement the recommendations in the audit including additional controls on the use of manual cheques and the use of two independent signatures.***

## **EMPLOYEE ADVANCES**

The Ministry advances funds to employees for travel expenses, petty cash and miscellaneous purchases. With the introduction of corporate cards for miscellaneous expenses and corporate credit cards for employee travel, advances should be minimal. However, as of March 1998, ministry records showed approximately \$800,000 as owing from ministry employees. The Ministry subsequently reduced this amount to \$645,000 by month's end.

We found that many employee advances recorded on the Ministry's financial system had not been followed up for many years. We were informed that in some cases the outstanding amounts had been advanced as far back as 1993. Since employee advances had not been periodically confirmed, some employees might not be aware that the Ministry's records showed they owed these funds. Consequently, the Ministry could have difficulty collecting these outstanding employee advances.

### **Recommendation**

**In order to properly manage employee advances, the Ministry should:**

- **limit employee advances to exceptional circumstances;**
- **follow up on all outstanding advances, inform employees of their outstanding debts and enforce prompt reimbursements; and**
- **implement procedures to monitor, periodically review and confirm all outstanding employee advances.**

### **Ministry Response**

***The Ministry will implement the recommendations in the report and will strengthen its efforts to limit employee advances and strengthen internal controls.***

***Over the past two years, the Ministry has significantly reduced its risk through managing its outstanding advances from \$2.5 million to \$645,000, including an 80% reduction in travel advances. Sixty percent of the remaining advances are "non-personal" advances issued to individuals for operational purposes such as cash floats in provincial parks and the Zimbabwe project.***

***The Ministry will initiate strengthened processes to further reduce and confirm outstanding advances.***

**3.08**

## **PAYROLL EXPENDITURES**

The Ministry employs about 3,000 full-time classified staff and a large number of seasonal employees, for example, 3,500 in August 1997. Staff salaries and benefits for the year ended March 31, 1998 were \$252 million. Although Management Board Secretariat is responsible for the government's centralized corporate payroll system, the Ministry performs general payroll functions including the compilation and input of payroll information and the verification of payments. The Ministry is ultimately responsible for ensuring that the payroll is processed correctly.

We reviewed the procedures for the authorization, processing and recording of payroll and found that controls need to be improved. The following examples highlight some of the control weaknesses we observed:

- The Ministry did not ensure that all employee timesheets were submitted on a timely basis. Until timesheets are received, the Ministry's attendance recording system can not be updated with regard to illness, extended leaves or other absences which would result in a reduction in pay. For example, an employee who had not submitted timesheets for over five years went on leave without pay in February 1998 and continued to be paid for four weeks.
- We reviewed the payroll for seasonal employees and found that resignations were not always promptly communicated to ministry payroll staff, and procedures were not in place to ensure that seasonal employees did not continue to be paid after they resigned. A seasonal employee in our sample had continued to be paid for three weeks after leaving the Ministry in August 1997. As of March 1998, the Ministry had not recovered the overpayment.
- We reviewed a number of termination payments and found insufficient controls in place to ensure that the required forms were used to calculate severance pay. For one employee in our sample who retired in June 1997, the appropriate forms had not been used and, consequently, the termination payment had not been checked or approved as required. We discovered that this employee had been overpaid more than \$3,000 for vacation pay and other benefits that had not been earned.

## Recommendation

To ensure that employees are only paid what they are entitled to, the Ministry should review and implement procedures to improve payroll controls where they are inadequate, including the implementation of procedures to ensure that:

- timesheets are reviewed, approved and submitted on a sufficiently timely basis and that seasonal workers are promptly removed from the payroll so that employees are paid only for attendance at work or legitimate absences; and
- termination payments are reviewed and approved as required.

## Ministry Response

*The Ministry will implement the recommendations in the report and has already established a process to ensure timely submission of timesheets. Payroll staff will be more pro-active regarding documentation in support of termination payments and will continue to pursue reimbursement of infrequent overpayments noted.*

## OTHER EXPENDITURES

Other expenditures include payments for services including the engagement of consultants, supplies and equipment, and transfer payments such as grants to conservation authorities. The majority of cheques for such payments are produced by the Ministry of Finance but the Ministry is ultimately responsible for ensuring that payments are processed correctly. The Ministry's other expenditures for the 1997/98 fiscal year totalled \$269 million.

## GENERAL EXPENDITURE CONTROLS

We reviewed procedures for the authorization, processing and recording of expenditures and found that controls were inadequate and needed to be improved. The following are some of the major weaknesses we observed:

- The evidence on file was insufficient to indicate the extent of verification that staff had performed or what procedures had been followed to determine whether payments were appropriate. For example, we found two payments for which holdbacks had not been deducted as required. Holdbacks are necessary to give the Ministry time to ensure that goods and services acquired from consultants or contractors are satisfactory.
- For a number of types of expenditures and journal entries, only one person's input of information into the financial system was needed to trigger payments for goods and services or to process a journal entry. In such cases, the input should be put in suspense, a supervisor should check that the supporting documentation has been reviewed and subsequently approve only appropriate transactions for processing.

- Purchase orders are one of the fundamental internal controls related to expenditure processing and are required by ministry policy. Properly completed purchase orders provide evidence that the required approvals were obtained for the goods ordered and provide details that can be matched to the goods received. However, we noted that invoices were often paid although purchase orders had not been issued as required by ministry policy.
- Ministry employees involved in payment processing are given a level of transaction authority on the financial system. This authority was intended to control and limit access to the system. However, we found that no formal mechanisms were in place to remove transaction authorities when staff changed positions. For example, an employee retained the authority to acknowledge the receipt of goods even though that employee was reassigned to approve the payment of invoices. A fundamental internal control is the assignment of these two functions to different staff, preferably in different departments.
- Internal Audit staff noted in an August 1995 report that administrative controls were weak, and the lack of controls made it difficult to identify irregularities.

### **Recommendation**

**To ensure that expenditures are processed accurately and that the risks of errors and irregularities are minimized, the Ministry should:**

- **require procedures to verify that payment processing checks have been performed;**
- **require supervisory review and approval of input into the financial system prior to the processing of payments and journal entries, especially for higher dollar items and when purchase order controls are absent;**
- **improve controls over payments through the effective use of purchase orders; and**
- **implement procedures to promptly cancel transaction authorities when employees change positions.**

### **Ministry Response**

***The Ministry will implement the recommendations in the report.***

***The Provincial Auditor noted two Construction Lien Act holdbacks that had not been appropriately applied. The Ministry will review its processes to ensure all appropriate holdbacks are deducted.***

***The Ministry will strengthen procedures and requirements for supervisory review and approval prior to processing transactions not supported by a purchase order. In addition, we will reduce the frequency of such transactions.***

***The Ministry will initiate immediately a review to establish revised protocols for assignment of the various transaction authorities in our accounting system.***



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## PROCUREMENT PRACTICES

To ensure a fair process and the best value for the funds expended, Management Board of Cabinet developed Directives to be followed for all acquisitions. In general, for purchases estimated to cost \$25,000 or more, a competitive tendering process is required. When costs are expected to be less than this amount, the Ministry must develop policies to ensure the receipt of the best value. Also, formal written agreements are required and the ceiling price must not be exceeded if the terms and conditions of the agreement remain unchanged.

We noted that the Ministry did not have procedures in place to ensure that the Directives' requirements regarding the acquisition of goods and services were met prior to processing payments. The required competitive tendering process was not used for one third of the consultant assignments we reviewed or for the procurement of leased computer equipment. Over the last two years, the Ministry had spent or committed to spend approximately \$66 million to lease this computer equipment. There were no documented waivers on file to justify or approve the departure from the required competitive process.

In addition, for expenditures under \$25,000, although ministry policies were in place, there was often no evidence that the Ministry had ensured that the best price was obtained. We also found that signed contracts were often not on file and the agreed-upon costs were exceeded, without documented justification, in over one quarter of the contracts reviewed.

### Recommendation

**To ensure a fair procurement process and the receipt of the best value, the Ministry should:**

- **require that all payments be supported with evidence of compliance with the mandatory procurement policies; and**
- **monitor contracts to prevent payments from exceeding the agreed-upon price unless accompanied with proper justification and approval.**

### Ministry Response

***The Ministry will implement the recommendations in the audit and has initiated revised directions to ensure mandatory procurement policies are followed across the Ministry. We have already initiated additional staff training and will ensure more adequate documentation of evidence of compliance with policies.***

***A response to information technology procurement practices is contained in the Ministry's specific response to the Science and Information Resources Division audit.***

## TRAVEL EXPENSES AND PURCHASE CARDS

Ministry policy requires that employees submit receipts to verify that expenditures have been incurred for ministry business. Employees incur expenses when they travel on job-related

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business, often using corporate credit cards, and when they purchase goods and supplies using corporate purchase cards. The Ministry either reimburses the employee for the expenses incurred or pays the corporate card companies directly when invoices are received.

We reviewed controls over employee travel expenses and purchase card payments and found that controls were inadequate. Specifically, receipts for travel claims and corporate card expenditures were not submitted. Moreover, managers did not always review receipts when they approved travel expenses and corporate card purchases. In June 1996, Internal Audit staff reported that without proper supporting documentation, there was no proof of the accuracy or validity of the amounts claimed.

### **Recommendation**

**The Ministry should ensure that requests for reimbursement of travel expenses and purchase card expenditures are adequately reviewed, approved and accompanied by proper supporting documentation.**

### **Ministry Response**

*The Ministry will implement the recommendations in the audit.*

*Our existing policies require supporting documentation for all travel and purchasing card expenditures. We will strongly reinforce this across the Ministry.*

*The Ministry recently completed a comprehensive post-implementation review of the purchasing card, and, while there are geographic pockets where we are still experiencing problems, the level of non-compliance is not widespread. As a result of our review, we have distributed a document to all card holders and managers reminding them of their responsibilities.*

## **REVENUE**

The Ministry collected revenues of \$448 million during the 1997/98 fiscal year. The principal sources of revenue are timber stumpage and water power fees, and deposits into three Special Purpose Accounts (SPA) as follows:

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## Ministry Revenue for the 1997/98 Fiscal Year

Revenue Source	\$ Millions
Timber stumpage fees	178
Water power fees	126
Forest Renewal SPA	53
Fish and Wildlife SPA	37
Ontario Parks SPA	26
Other revenue	28
Total revenue	448

*Source: Ministry of Natural Resources*

In addition to collecting royalties, fees and SPA deposits, the Ministry is responsible for monitoring the performance of the trustee that administers two trust funds, the Forest Renewal Trust and the Forestry Futures Trust.

### GENERAL REVENUE CONTROLS

We raised a number of concerns regarding the collection and recording of revenue during an audit of the Ministry in 1992. During the 1997/98 fiscal year, the Ministry implemented a new accounting system for a major portion of its revenue and plans to extend the implementation to the remainder of its revenue sources during the 1998/99 fiscal year. This new system and the centralization of revenue collection have significantly improved controls over revenue management. The financial controls over water power fees were weak but the controls over the billing, collection and recording of other revenue were adequate. However, we observed the following weaknesses:

- We noted that procedures did not ensure that all revenue received was promptly deposited and properly recorded. For example, upon receipt cheques should be stamped for Ministry deposit only and listed for subsequent reconciliation to the daily bank deposits.
- In our review of timber revenue, we noted that billings were slow as it often took almost six months from the time timber was harvested for the Ministry to issue an invoice for the applicable timber fees.
- We observed that in some cases cheques were made payable to a ministry employee. To help prevent the possibility of the misappropriation of government funds, the Ministry should instruct all payees to make cheques payable to the Minister of Finance.

#### Recommendation

**To improve the management of revenue collection, the Ministry should:**

- ensure that revenue received is promptly deposited and properly recorded;
- ensure that timber fee invoices are prepared and sent on a timely basis; and
- instruct all payees to make cheques payable to the Ministry of Finance.

### **Ministry Response**

*The auditor notes the control improvements resulting from our recent efforts to move our revenue processes to state of the art technology, but that there is still room for improvement. The Ministry will implement the recommendations.*

*We will ensure prompt deposit and recording of all revenue. In future, all cheques will be stamped and recorded to facilitate reconciliation.*

*Delays in billing our timber licensees have been a major concern for some time. We have approached this issue from a number of fronts, including development of mass scaling protocols, electronic data transfer and moving the processing to the Oracle environment. Most recently, we have been piloting a self assessment process with our major licensees.*

*All our billing processes indicate payment should be made to the Minister of Finance, and the Ministry has already reinforced this requirement with the one supplier noted.*

## **WATER POWER REVENUE**

Legislation and a number of legal agreements stipulate when and at what rates power companies are required to pay fees to the province for water power generating stations. For the 1997/98 fiscal year, water power revenue was \$126 million. We reviewed the collection, processing and recording of water power revenue and found that procedures were inadequate to ensure that all revenue owed to the province was collected.

A number of recent initiatives have helped to improve internal controls over the collection of water power revenue. For example, over the past two years, \$2 million of under-billing errors from previous years had been identified and collected. However, we noted several areas where the Ministry needs to improve the management of water power revenue collection:

- A significant number of statutes, regulations and legal agreements govern water power fees. The Ministry needs to check that the rates charged to power companies are in accordance with the governing legislation and agreements. However, we found that receipts of water power revenue were not always checked to ensure compliance with the legislation and legal agreements. For example, the Ministry was unable to completely verify over \$40 million of annual water power fees for one major water system because all the related legal agreements were not on file. A clear summary of the basis for calculating all fees was not prepared and, therefore, was not available to verify the validity of revenue received.
- The Ministry did not have a comprehensive list of all water power generating stations for which payments were required. For example, the Ministry recently noted a generating station on a lease agreement that had not been billed for several years. The power company that owned the station was subsequently billed \$1 million for previous years' fees.



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- The Ministry did not regularly verify water power revenues by verifying on site the accuracy of the information submitted by the power companies. In 1989 and again in 1994, the Ministry's Internal Audit section recommended that such verification procedures should be implemented.

### **Recommendation**

**In order to ensure the receipt of all the water power fees it is entitled to, the Ministry should:**

- **establish procedures to bill and collect in accordance with legislation and the legal agreements; and**
- **periodically verify, at power company sites, that the information submitted is accurate.**

### **Ministry Response**

*The Ministry will implement the recommendations in the audit. While Corporate Services Division staff are involved in processing the related revenue, monitoring compliance with legislation and legal terms and conditions contained in agreements is conducted in the program area. We will ensure the related agreements and rate calculation methodologies have been retained in the program delivery area.*

*The Ministry is reviewing its data to ensure it has a comprehensive list of power stations for which water power payments are required. We have also reinforced the need to notify the Ministry when new production facilities come on stream.*

*We will continue to increase our level of internal integration in order to ensure adequate management of our relationships with the generating entities.*

## **FORESTRY TRUST FUNDS**

The Ministry is responsible for ensuring the proper administration of two trust funds, the Forest Renewal Trust and the Forestry Futures Trust. These trusts were established to manage the funding of silviculture expenses for Crown land that has been cut or damaged by fire or other natural causes. The trusts are administered by a trustee and are audited by a public accounting firm. The audited financial statements for the two trusts for the year ended March 31, 1997 reflected the following:

**Forestry Trusts' Financial Summary**  
(as at March 31, 1997)

	<b>Forest Renewal (\$ Millions)</b>	<b>Forestry Futures (\$ Millions)</b>
Revenue	75.6	8.5
Expenditures	45.6	9.2
Fund increase (decrease)	30.0	(0.7)
Total Trust Assets	71.5	9.4

*Source: Audited financial statements*

We reviewed the audited financial statements and the accompanying management letter reports for the Forest Renewal Trust and the Forestry Futures Trust. For both trusts, the external auditor reported that the trust company did not have an adequate system for tracking receivables from timber companies. The auditor reported that in respect of the Forest Renewal Trust:

- the trust agreement was too unclear to allow for determinations of what constituted eligible expenditures to be paid from the trust; and
- the trust company had not complied with a trust agreement requirement when it paid invoices to timber companies prior to receiving the required reports from them.

**Recommendation**

**The Ministry should ensure that action is taken on the weaknesses noted by the forestry trusts' auditor so that receivables systems are improved and only eligible and properly supported expenditures are paid.**

**Ministry Response**

***The Ministry will implement the recommendations in the audit.***

***From inception of the forestry trust arrangements, management of the trust funds has been the responsibility of an outside provider. We have been aware of problems with the receivables aspect of this service for some time, and have been working with the provider to try and improve the quality of documentation and record keeping. Unfortunately, we have been unsuccessful and are currently making arrangements to bring this function back within the Ministry.***

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## MINISTRY OF NATURAL RESOURCES

# Fish and Wildlife Program

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The mandate of the Ministry of Natural Resources is to achieve the sustainable development of the province's natural resources, including the development of the economies and communities that depend on these resources. The Ministry estimates that recreational fishing, hunting and wildlife viewing contribute more than \$5 billion annually to the Ontario economy and provide approximately 100,000 jobs.

The Fish and Wildlife program, governed by the *Game and Fish Act*, provides leadership and direction in the management of the province's fish and wildlife resources. This includes coordinating the development, implementation and improvement of fish and wildlife legislation, policies, programs and standards. The goal of the program is to maintain and, where possible, enhance the social, cultural, economic and environmental benefits derived from the province's fish and wildlife resources.

The major functions of the Fish and Wildlife program are the licensing of commercial fishermen, anglers and hunters; rehabilitating fish populations through stocking; habitat improvement; and regulating the fish and wildlife harvests through the establishment and enforcement of seasons and quotas and the allocation of tags to hunt wildlife. The program is delivered by the Ministry's Fish and Wildlife Branch, which operates several fish hatcheries and three Great Lakes management units. Program activities are also performed through the Ministry's 3 regional and 25 district offices and the Science and Information Resources Division.

Since April 1, 1996, all licence fees, royalties, fines and other revenues collected under the *Game and Fish Act* have been retained in a Fish and Wildlife Special Purpose Account and dedicated to expenditures for fisheries and wildlife management. For the 1997/98 fiscal year, total funding for fish and wildlife was \$72 million including funding from the Special Purpose Account.

In June 1997, the Ministry introduced new legislation entitled the *Fish and Wildlife Conservation Act* to replace the *Game and Fish Act*. As of March 1998, the Act was awaiting proclamation.

## OBJECTIVES AND SCOPE

The objectives of our audit of the Fish and Wildlife program were to assess whether adequate systems, policies and procedures were in place:

- to measure and report on the effectiveness of the program and to identify areas where corrective actions are required;

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- to ensure compliance with legislation and ministry policies; and
  - to ensure that resources are managed with due regard for economy and efficiency.

The criteria used to assess the program were discussed with and agreed to by ministry management. These criteria related to the systems, policies and procedures that the Ministry should have in place, including: clearly defined goals and objectives for the program; fish and wildlife management plans for all major species and parts of the province; systems for generating reliable information for decision-making purposes; and a clear strategy for the enforcement of legislation.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our audit, which was substantially completed in March 1998, included a review and analysis of documentation and discussions with staff at the Ministry's head office and regional and district offices. In addition, we either interviewed or sent questionnaires to a sample of conservation officers regarding their enforcement activities.

Our audit also included a review of the activities of the Ministry's Audit and Evaluation Section. However, we did not reduce the scope of our audit work as the Section had not issued any relevant reports on the administration of the Fish and Wildlife program since 1989.

## OVERALL AUDIT CONCLUSIONS

The Ministry did not have adequate procedures in place to provide the information necessary for measuring and reporting on the program's effectiveness in sustaining fish and wildlife resources or to identify areas where corrective actions were required. The Ministry also needed to improve its resource management and enforcement practices, to ensure compliance with legislation and ministry policies and to ensure that resources are managed economically and efficiently. Our specific concerns are cited below.

- The Ministry had not developed proper effectiveness measures to assess the program's success in achieving the sustained development of the province's fish and wildlife resources and lacked the information necessary for identifying areas requiring corrective actions.
- The Ministry needed to have in place adequate policies for the management of the big game species (moose, deer and bear).
- The Ministry did not have complete data regarding the populations of the three big game species. Consequently, decisions regarding the sustainability of the resources and the number of tags to be issued were made without complete information regarding the demographics of the big game species.
- Information from the assessment of fish populations and other data were often not available to assist management in managing regeneration, stocking and harvesting.



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- Over the past two years there has been a decrease in the amount of time spent on general deterrent patrols by conservation officers and in the number of charges laid under the *Game and Fish Act*.
  - The Ministry withdrew \$39.2 million from the Fish and Wildlife Special Purpose Account for fish and wildlife expenditures during the 1996/97 fiscal year. However, the Ministry's financial system recorded only \$34.7 million in actual program expenditures charged to the Account. The Ministry had not properly documented and recorded fish and wildlife program expenditures totalling \$4.5 million.

We found that the Ministry had adequate controls in place for ensuring that revenues from hunting and fishing licences were submitted by licence issuers on a timely basis.

## DETAILED AUDIT OBSERVATIONS

### MEASURING AND REPORTING ON EFFECTIVENESS

In a 1991 policy document termed *Directions '90s*, the Ministry stated that the sustainable development of natural resources would be the cornerstone of its future policy direction. Further refinements were incorporated in *Directions '90s – Moving Ahead 1995* whereby the Ministry recognized the need to state desired outcomes to measure success in achieving its objectives. In the latter document, the Ministry included general statements of desired outcomes such as securing a healthy ecosystem; planning for and managing land and natural resources in an orderly way; allocating natural resources in an efficient and fair manner; securing and enhancing economic development associated with natural resources; and protecting significant natural heritage features and landscapes.

Although desired outcomes were established, the Ministry had not defined performance measures to assess the effectiveness of the Fish and Wildlife program in meeting its goal. The Ministry's 1996/97 and 1997/98 business plans acknowledged the need to develop and refine outcomes and performance measures. Additionally, in July 1997 the Ministry carried out a pilot project to test performance measures for the program. However, the performance measures were activity- or output-based rather than relating to outcomes and included such items as:

- the number of fish and wildlife management information systems currently operational;
- the number of fish and wildlife assessments done;
- the number of commercial fishing licences under quota management and the total kilograms caught for each species of fish;
- the number of resource rehabilitation projects; and
- the number of fish stocked by species and survival rates.

Although these measures relate to the activities involved in achieving program objectives, the Ministry needs to develop them further in order to link the activities to the objectives and desired outcomes. Except for the pilot project and the evaluation of some individual projects,

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no province-wide assessments have been performed to determine whether the management of fish and wildlife resources was meeting the Ministry's goal of sustainable development.

Although ministry staff agreed that an overall assessment was needed to evaluate program effectiveness, insufficient information was available to measure achievement. Without such an assessment, the Ministry has limited information on how its policies and management practices are affecting the future sustainability of fish and wildlife resources.

### **Recommendation**

**To ensure that the program is effective in meeting its stated objectives and to identify areas where corrective actions are required, the Ministry should develop sound performance measures which are linked to the overall objectives, perform the necessary assessments and periodically report on the program's achievement in sustaining fish and wildlife resources.**

### **Ministry Response**

*The Ministry agrees with this recommendation. We are committed to improving our current system of performance measurement to assess our success in achieving natural resource management objectives and the overall effectiveness of management strategies. Performance measures will be refined to assist in evaluating the achievement of desired outcomes for the Fish and Wildlife program—maintenance of healthy fish and wildlife populations and provision of a diverse range of fish and wildlife-related opportunities and benefits.*

## **WILDLIFE MANAGEMENT**

Moose, deer and bear are the big game species that are important commercially and most vulnerable to overharvesting. Consequently, a significant part of the Ministry's wildlife management efforts are devoted to these three species. Each species requires specific and often unique management policies, population management techniques, habitat protection and harvest data management. The Ministry has divided the province into wildlife management units to monitor populations, set seasons and allocate hunting tags.

The Ministry's primary method of deer and moose population management is harvest control by limiting the number of tags available to hunters. If fewer hunting tags are available, fewer animals will likely be harvested. The Ministry controls the total number of tags for hunting adult moose and antlerless deer (does and fawns). In addition, the Ministry limits the number of licences granted to hunt deer in specified areas of southern Ontario. The Ministry does not set quotas or restrict tags for moose calves, male deer or bears.

While the focus of the Ministry's wildlife management efforts are related to the three big game species, the Ministry also monitors furbearers, waterfowl and wild turkey populations along with vulnerable, threatened and endangered species.

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## WILDLIFE MANAGEMENT POLICIES

For proper management and decision making, the Ministry should have approved wildlife policies that relate to the current status of populations. However, we noted that ministry policies for the big game species were either outdated or non-existent. As a result, the Ministry is making decisions which may not contribute to its overall objective of resource sustainability. For example:

- The provincial moose policy was approved in 1980, whereby specific provincial population and harvest targets were established. Within the core moose range, the area of the province where most of the moose live, the population target was based on the number of animals that each wildlife management unit could support. About the same time, the Ministry implemented the selective harvest program which limited the number of adult moose that could be harvested each year.

In 1980 the Ministry set a provincial population target for the core moose range of 140,000 moose by 1995 and 160,000 by the year 2000. However, there has been little or no increase in the number of moose since the mid-1980s and in 1997 the provincial population was estimated to be 100,000 animals. A 1996 ministry study found that 93% of all wildlife management units within the core range were below their population target levels. Consequently, the Ministry needs to review its management practices and make changes to meet the sustainability objectives.

Since the moose population targets were set for the wildlife management units, the Ministry continued to gather research data on the population levels that the units can sustain. The data indicated that many of the units across the core moose range can sustain a higher population. This information is an important factor in determining the number of hunting tags to be allocated.

While population targets were originally set for only the core moose range, no such targets were set for the 16 management units in Central Ontario that are on the edge of the range. Over the past two decades the habitat in these units has changed, resulting in an increase in the moose population and an increase in hunting opportunities. For each of the past three years, approximately 2,200 moose hunting tags have been allocated to these units. Although the Ministry estimates that these areas now have a significant huntable moose population, there is no policy to assist field staff in managing this resource. Consequently, district staff have issued hunting tags without knowing whether the moose population in these units was at a sustainable level.

- The deer harvest averaged 51,000 annually between 1993 and 1995, and the herd is currently estimated at 350,000 to 400,000 animals. However, the Ministry does not have an approved deer management policy. The management policy currently being used is a 1991 draft. In 1998, the Ministry began a deer hunt review to identify areas where the deer population can support an increased harvest. This review is intended to facilitate the approval of a deer management policy.

- The Ministry has a provincial bear policy, but does not set quotas or restrict licences for bear hunting. Instead, sustainability guidelines recommend the average harvest should not exceed one bear for every 50 square kilometres in the north and one bear for every 25 square kilometres in central Ontario. In addition, no more than 20% of the total harvest should consist of adult females. The current population is estimated at 75,000 to 100,000 bears, with an estimated annual harvest of 7,000 animals.

While tourist outfitters operating bear management areas are required to follow the sustainability guidelines, the Ministry was inconsistent in its efforts to monitor their activity. For example, staff in one district had informed operators in writing regarding their harvest levels as far back as 1994 and continued to monitor them against the sustainability guidelines. In another district, staff had only recently held informal discussions with the operators. The latter district had one of the largest operators in the province and based on the sustainability guideline was allowed to harvest 45 bears annually. However, from 1993 to 1996 an average of 75 bears was harvested every year in that operator's area.

### **Recommendation**

**To ensure that wildlife populations are maintained at sustainable levels, the Ministry should:**

- **develop and implement the necessary wildlife management policies;**
- **update the desired population levels or status for each management unit; and**
- **set harvest targets based on reliable and current animal population and status information.**

### **Ministry Response**

***The Ministry agrees with this recommendation.***

***Wildlife management policies are currently being reviewed and revised in anticipation of the proclamation of the Fish and Wildlife Conservation Act in the fall of 1998. The policy review will include consideration of program objectives and targets related to population size and status of key wildlife species.***

***Annual harvest targets will reflect long-term wildlife objectives, and will be based upon reliable and current information. The Ministry has initiated improvements in the collection and analysis of population data for moose. Reviews have been conducted on the status of white-tailed deer and black bear populations. We will be acting on the recommendations resulting from these reviews, to improve our information base on these two species.***



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## WILDLIFE POPULATION ASSESSMENTS

To properly manage wildlife, the Ministry needs accurate data on current populations and the number of animals harvested. Such information is necessary to determine the number of hunting tags to issue annually in order to maintain a sustainable population. However, we noted that the Ministry had not carried out population and harvest assessments for the three big game species frequently enough to enable managers to make informed decisions. For example:

- Assessing the moose population is to be done by carrying out aerial surveys for each wildlife management unit. The Ministry's standard in the core moose range is to survey each unit every three years. However, this cycle had not been maintained since 1990 and some units were only being surveyed every five years. Additionally, surveys had not been done for up to 13 years in areas that were not in the core range.

The Ministry reduced the number of tags in areas where surveys revealed a declining moose population. For example, in one management unit the moose population was 2,025 in 1992 and according to a 1997 survey had declined to only 727 animals. However, the target population was 2,200 animals. Rather than suspend hunting in this area, the number of tags issued was reduced from 370 to 248. More timely surveys as well as stronger and earlier intervention might have helped sustain this moose population.

District staff use the huntable population to calculate the number of moose tags to be issued. This population should equal the number of animals identified by the aerial surveys. However, we noted that the huntable population used by 10 of the 51 management units in the core moose range was higher than the number obtained from recent aerial surveys. Consequently, more tags were issued than the guidelines recommended for achieving the desired population. District staff were not required to use the results of the most recent survey. A different population figure was used to calculate the number of tags to be issued because district staff believed that the survey results did not reflect the current population. Without reasonably accurate and complete population trend information, district staff cannot determine the proper number of hunting tags to issue.

- The Ministry does not carry out any assessments of the deer population. Instead, district offices rely on hunters who receive an antlerless deer tag to complete a district mail survey and thus provide some indication of the deer herd status in the management units. However, hunters who hunt antlered deer are not included in the surveys. Moreover, prior to 1996 the Ministry obtained information on the antlered deer harvests through jaw collection or road check stations, but had since discontinued this practice. Therefore, the Ministry does not have complete information at the management unit level regarding deer harvested.
- Non-residents, who account for approximately 75% of the annual bear harvest, are required to report hunting results as a condition of the licence. These reports are a key mechanism for monitoring both the bear harvest on a management unit basis and compliance with the bear sustainability guidelines. Information from resident hunters is gathered through a provincial mail-in survey which is designed primarily to provide socioeconomic data about hunting each big game species. However, a ministry report indicated that these surveys lacked the precision and accuracy necessary to be of any value in estimating the number of bears harvested by residents and did not provide information on

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a management unit basis. In addition, we noted that the information from the provincial mail-in survey was not compiled and analyzed on a timely basis. For example, the results of the 1996 survey were not available until March 1998. Consequently, the survey results are of little value for decision-making purposes or for controlling the total bear harvest.

Another method used to assess compliance with the bear sustainability guidelines is the collection and analysis of teeth from harvested bears. This helps in determining the age of the bear. Since the collection of teeth is not mandatory, the districts varied in their efforts to obtain the teeth. In many instances, the collection effort depended on the relationship that the district had with the tourist outfitter. We noted that in 1996 the Ministry had received teeth from only 22% of the total number of bears harvested throughout the province. In particular, for six management units in the northwest region, the Ministry received teeth from only 12% of the harvest. Without a representative sample of bear teeth from all wildlife management units, it is difficult for the Ministry to properly assess compliance with the sustainability guideline.

## 3.09

### Recommendation

**To properly manage wildlife and help ensure that the sustainability goal is achieved, the Ministry needs to:**

- carry out population assessments more frequently to accurately determine the populations of the various wildlife species;
- analyze the survey information and report the results on a more timely basis; and
- require district offices to use the results for decision-making purposes and the effective management of area wildlife resources.

### Ministry Response

*The Ministry agrees that the collection, analysis and application of appropriate inventory and assessment information are essential for ensuring resource sustainability. The Ministry is implementing a number of changes in wildlife assessment which will address this recommendation.*

*A more regular schedule of aerial moose surveys is being carried out across the province and allowable moose harvests are being recalculated to reflect new information. When needed, the number of tags is being adjusted to reflect new population information. Reductions have been significant in some units in order to ensure that existing population levels are maintained.*

*A 100% survey of resident black bear hunters will begin in the spring of 1999 to provide a more accurate estimate of resident harvest on a management unit basis. This information, combined with mandatory reporting requirements for non-residents, will allow a more accurate assessment of total hunting mortality of bears. A detailed review of black*

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***bear population status in each management unit will be completed in the fall of 1998. Based upon this review, any required changes in black bear harvest strategies will be implemented. The Ministry continues to support research on black bears, and has increased research activity in 1998/99.***

***Reviews have been completed of the status of white-tailed deer populations in southwestern and southeastern Ontario. Deer population models developed for forested regions have been modified for agricultural southern Ontario. These models will provide Ministry field staff in southern Ontario with improved information on which to base deer management decisions.***

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## **WILDLIFE HARVEST MANAGEMENT**

We reviewed the Ministry's wildlife harvest management of the three big game species, namely, moose, deer and bear. According to the Ministry there is a need to maintain a balance between the sustainability of wildlife populations and the economic spin-offs generated by the annual hunts. As a result of our audit we were most concerned with the Ministry's management of moose because provincial population targets had not been met.

There is a delicate balance between sustaining the moose population and maintaining or increasing hunting opportunities. The provincial moose policy states that priority must be given to protecting the moose resource versus allocating hunting tags. Even though the number of hunters applying for a tag has increased by 40% (30,000) since 1983, the number of tags issued annually has decreased by approximately 64% (34,000). However, the moose population has not increased to the provincial target level.

District staff are required to use the "Guidelines for Moose Harvest Planning and Adult Moose Tag Quota Calculations" in determining the number of tags to be issued. The guidelines indicate that a planned harvest rate of 8% or less of the huntable moose population within each management unit is necessary to initiate growth of the herd. However, from 1996 to 1998, sixteen wildlife management units had a planned harvest rate of 10% or higher even though the population was below the unit's population target. Consequently, the number of tags issued to hunters was higher than prescribed by the guidelines. For example, the 250 tags issued for one wildlife management unit exceeded the 189 tags recommended by the guidelines.

A ministry study of tag allocations between 1983 and 1994 indicated that the moose population was being managed as a stable population. Consequently, tags were issued on that basis even though the numbers of moose in the management units were below the population targets. Specifically, 60% of all management units issued more moose hunting tags than recommended by the Ministry's harvest guidelines, and 50% of the units underestimated hunting success rates resulting in more animals being harvested than expected. Another report indicated that there were also variations in the method used by districts to set moose tag quotas. Staff in some districts set conservative tag quotas to increase the population quickly and achieve population objectives, whereas others set higher quotas to provide more hunting opportunities.



## Recommendation

To assist in maintaining the proper balance between sustainable population levels and the demand for tags, the Ministry should implement procedures to help ensure that the number of moose tags issued by each management unit is within the sustainability guidelines.

## Ministry Response

*The Ministry agrees with the need for consistent application of procedures regarding moose tag allocations. Ensuring the proper balance between the sustainability of moose populations and the harvest of moose is a fundamental principle of the present moose management system.*

*Determination of the number of tags in a Wildlife Management Unit is based upon two key considerations—clear population objectives and sound information on population size or status.*

*The provincial target for moose was established in the early 1980s. The Ministry will be reviewing moose population objectives in light of the most recent inventory data. Where updated inventory information indicates that local moose populations within a specific Wildlife Management Unit have declined, action will be taken to reduce the number of tags and thereby reduce pressure on the local herd.*

## FISHERIES MANAGEMENT

The Fisheries Section of the Fish and Wildlife Branch is responsible for developing fisheries legislation, policies, programs and guidelines for assessments as well as managing habitats and monitoring the fish stocks across the province. Fishing involves both commercial and recreational fishing. The landed value of the commercial fishing industry harvest is over \$40 million annually and the industry contributes approximately \$1 million in royalties annually to the Fish and Wildlife Special Purpose Account. Recreational fishing activities also produce significant economic spin-offs for the province.

Ontario has over 250,000 inland lakes with 140 fish species that require management. In this regard the Ministry in 1992 issued a Strategic Plan for Ontario Fisheries, which is the blueprint for provincial fisheries management. The Plan is intended to help protect healthy aquatic ecosystems and rehabilitate those that have deteriorated in order to provide long-term benefits to the province.

## COMMERCIAL FISHERIES MANAGEMENT

Most of the commercial fishing activity takes place in the Great Lakes with Lake Erie being the largest fishery. To manage the commercial fisheries, the Ministry works with American federal and state agencies in sharing the fish resource. International sharing formulas determine the total allowable catch of commercial fish, mainly walleye and yellow perch, by the United



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States and Ontario. Based on the total allowable catch, the Ministry then sets the commercial fishing quotas by species for each licence.

Each year both Ontario and the United States carry out lake assessments to determine the fish population and the strength of the young fish to continue reproducing. These assessments are then used to adjust the fishing quotas in order to achieve a sustainable fishery. We noted that the Ministry has adjusted its quotas from year to year as a result of these assessments. In addition, the Ministry's management of the commercial fisheries promotes the sustainability of the commercial fish stocks.

## **RECREATIONAL FISHERIES MANAGEMENT**

District offices are responsible for managing the fish resources in their areas. In the late 1980s, each district office prepared Fisheries Management Plans which were to be in effect until the year 2000. These plans included their fisheries program objectives, resource information such as harvest yields and limits by species, management strategies and an implementation schedule.

Unlike the use of quotas in the commercial fishery, recreational fishing harvests are managed through individual angler's catch and possession limits, defined fishing seasons, closed areas and size restrictions. Current, detailed assessment data is required to determine which fish populations need protection. Ideally, the Ministry selects for assessment a number of lakes that are representative of the general status of the fish population in surrounding lakes. If necessary, fishing regulations can then be changed if there is a need to protect or improve a specific fish population.

According to district Fisheries Management Plans and other reports on fisheries resources in central and northern Ontario, there is a lack of current fisheries data. Without such data, staff cannot make informed decisions regarding the resources in their areas. For example:

- One ministry study reported that since 1985 district offices in the northwest region had done little or no evaluation of the various factors affecting fish stocks, such as habitat, natural reproductive capability, stocking policies and harvest guidelines. In addition, the allowable harvest yield estimates in the district Fisheries Management Plans were outdated. Therefore, the study concluded, there was a need for assessments to determine the current fish stocks to help managers set proper yield harvest estimates.
- Since 1994, the Ministry has used the fishing regulations to impose restrictions such as season closures on approximately 200 lakes in Central Ontario due to declining lake trout populations. The public was opposed to the restrictions and requested the fisheries data supporting the Ministry's actions. However, the Ministry indicated that it had incomplete data on 56 of the lakes. Consequently, during the 1997/98 fiscal year the Ministry started to assess these lakes and found that 14 of the 32 lakes assessed could not support natural reproduction and 4 were not suitable for the survival of lake trout. The remainder had varying degrees of natural reproduction. As a result of the assessment information, the Ministry changed its fisheries management approach for these lakes.

### Recommendation

In order to make better informed decisions regarding the management of fish populations, the Ministry should undertake cyclical assessments of a representative sample of provincial lakes.

### Ministry Response

*The Ministry agrees with this recommendation. While the Ministry has been operating in this way since the late 1970s, we will ensure that major recreational fisheries are assessed on a timely basis.*

*The Ministry has adopted a "type lake" concept, with intensive monitoring and assessment carried out on representative water bodies. The information collected by these "fisheries assessment units" on the Great Lakes and selected inland waters is augmented by fisheries research programs and individual lake surveys. In addition, the Ministry has expanded efforts to support ministry partners in conducting inventory and assessment.*

## FISH STOCKING PROGRAM

The Ministry manages 10 fish hatcheries to provide fish for stocking in public waters. For the eleven species used for stocking, the Ministry produces over 7.5 million fish annually. In 1998, an additional one million fish are to be stocked to further stimulate the public's interest in fishing and encourage economic spin-offs.

Approximately 60% of the stocking helps to rehabilitate existing fish populations with the hope that the species will start to reproduce naturally. The remaining 40% is "put-grow-take" stocking which creates fishing opportunities where naturally reproducing populations are too limited or non-existent. Both stocking methods could include the introduction of new species into lakes.

Each year, district staff determine the type and number of fish to be stocked and which lakes are to receive them and submit their requirements to the provincial fish hatcheries. The district staff determine the quantities of each species and the lakes to stock based on criteria which include accessibility, the reason for stocking (rehabilitative or put-grow-take), success of past stocking and public demand.

The survival rate of stocked fish is an important measure of the success of the fish-stocking program. We found that the Ministry had not carried out enough post-stocking evaluations to assess the success of the program and its long term impact on the fish stocks. For example:

- Since 1994, ten districts had requested the same type and quantity of fish each year without determining the survival rate of the fish stocked.

- The Ministry has a General Policy of Stocking Fish in Ontario, which recommends that 10% of the lakes stocked or one lake per district should be assessed each year. For the six districts we visited, few or no assessments had been done. In one district, assessments were completed for only 2 of the 16 lakes where 175,000 brook trout had been stocked over the past six years.

District staff informed us that little funding is allocated to do post-stocking evaluations, resulting in few overall assessments being done. Also, district staff place a low priority on completing assessments for the put-grow-take stocking. However, there is a need to determine the survival rate of stocked fish since the Ministry plans to expand the stocking program, particularly the “put-grow-take” stocking.

The Ministry indicated that its fish stocking policy, dating back to 1982, has led to conflicting management practices such as allowing supplemental stocking of lakes where a naturally reproducing population already exists. Scientific research indicates that supplemental stocking can harm the naturally reproducing species rather than improving the lake’s overall fish stock. There is considerable pressure from outside interest groups to continue the supplemental stocking of certain species, and some districts still do so even though the Ministry discourages the practice.

### **Recommendation**

**To help ensure that the fish stocking program is rehabilitating natural populations and encouraging economic spin-offs, the Ministry should perform regular assessments to determine whether the lakes and species currently being stocked meet the objectives for rehabilitation, introduction and put-grow-take stocking.**

**Also, to help protect the natural fish stocks and to continue to provide a sustainable population, the Ministry should revise its fish stocking policy to reflect current scientific research.**

### **Ministry Response**

***The Ministry agrees that the results of stocking should be evaluated to determine whether fisheries management objectives have been met.***

***On the Great Lakes, which receive large numbers of stocked fish, extensive stocking assessment studies have been carried out to monitor survival of stocked fish, contribution to rehabilitation objectives, and benefits associated with the recreational and commercial fisheries.***

***More consistent effort will be directed to stocking assessments on inland waters in the future. In addition to direct delivery of assessment programs, the Ministry has expanded the eligibility of projects that can be funded through the Community Fisheries Involvement Program to include stocking assessment.***

***The Ministry will continue to refine its guidelines for fish culture and stocking based on the best available science.***

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## FISH STOCKING METHODS

The fish stocking guideline states that using the most practical means of transportation, as well as the minimizing of costs and travel distances, should be considered in keeping fish mortality levels at a minimum. Transportation methods used include truck, boat, snowmobile, helicopter and airplane.

Because of reduced financial resources, district staff have attempted to choose the most economical method of transportation. However, this often results in increased transportation time and higher fish mortality rates. In its 1997/98 work plan, the Ministry echoed this concern by indicating that "many districts no longer have the resources to support fish stocking, particularly aircraft stocking, resulting in a greater workload for fish culture staff or potentially greater post-stocking mortality."

The Ministry invests \$4 million annually on advanced rearing techniques and fish diets to produce strong, healthy fish and thereby increase survival rates. However, this effort is diminished because the transportation methods chosen by districts may increase fish mortality and reduce stocking success. For example, one district reduced transportation costs by stocking brook trout through the ice using snowmobiles which are relatively inexpensive compared to aerial transportation methods. However, we were informed by ministry staff that the fish mortality would increase if the ice stayed on the lakes longer than expected.

### Recommendation

**To reduce the fish mortality rate when transfers are being made from the hatcheries to the lakes and streams, the Ministry should ensure that the most appropriate transportation methods are used.**

### Ministry Response

*The Ministry agrees that every effort should be made to minimize the mortality of fish during transfer from the hatchery to receiving waters.*

*The Ministry has made improvements in the transportation of hatchery-raised fish. Upgrading of hatchery vehicles, equipping hatchery trucks with electronic temperature and oxygen monitoring equipment, and providing additional funding in the 1998/99 Fish and Wildlife budget to support stocking, will assist in making best use of valuable hatchery products.*

## COMPLIANCE WITH LEGISLATION AND MINISTRY POLICIES

The 280 conservation officers, appointed under the *Game and Fish Act*, are responsible for enforcing the Act and related provincial and federal legislation. Regulations under these acts control hunting and fishing by restricting harvests and limiting harvest seasons. A ministry report noted that only through sound management and effective law enforcement will the natural resources continue to be available to meet the needs of the people of Ontario.



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During the 1997/98 fiscal year, 215 of the Ministry's conservation officers worked on enforcing the Act in the field and spent about 80% of their time on fish and wildlife activities. They are responsible for patrolling approximately one million square kilometres or an average of 4,650 square kilometres per officer. For the 1997 calendar year, the conservation officers laid 6,900 fish and wildlife charges, resulting in fines totalling \$615,000.

## **ENFORCEMENT ACTIVITY**

Each district is divided into geographical areas which are assigned to conservation officers. As part of their enforcement efforts, to help ensure compliance with legislation, the conservation officers conduct general deterrent patrols to monitor resource users and maintain a strong visible presence in the communities.

The Ministry allocates operational support funding to the districts for enforcement activity based on \$11,000 per conservation officer. However, this amount does not take into consideration the geographic or resource pressures affecting each district. Additionally, this amount is reduced by office overhead costs and the cost of leased vehicles and computers. After deducting these costs, there is only \$4,000 to \$7,500 per officer left to carry out enforcement activities and to pay for vehicle operating costs, mandatory training, uniforms and meals.

From our review of the enforcement activities in the districts that we visited and the responses to the conservation officer questionnaire, we noted the deficiencies indicated below:

- Over the past two years, there has been a decrease in the time spent on general deterrent patrols. Over 70% of the conservation officers who responded to our questionnaire indicated that their assigned areas were not being effectively patrolled due to inadequate funding, poor vehicles and equipment, and, in some cases, because of increased patrol areas. As a result, the conservation officers have concentrated on those areas considered to be high risk because of their history of violations, seasonal activities and complaints.
- At the districts we visited, the funds budgeted for each conservation officer were insufficient to carry out enforcement activities. Funds ran out seven or eight months into the fiscal year. To make up the shortfall, some districts reallocated funds from other activities. Where reallocations were not possible, patrols would be reduced because conservation officers would share vehicles and work together until the funds ran out or would carry out only minimal enforcement activities. For example, one district in the Northwest Region used up its entire enforcement budget by November 1997 and for the remainder of the fiscal year, aside from responding to some complaints, did not carry out normal enforcement activity.
- At some of the district offices that we visited, conservation officers indicated that they were restricted to driving between 1,500 and 2,500 kilometres a month within their patrol areas. In such cases, it is questionable how effective enforcement activities are in safeguarding resources, inasmuch as the average patrol area is approximately 4,650 square kilometres. Therefore, conservation officers indicated that they concentrate primarily on high risk areas.

- For 1996 and 1997 charges for wildlife infractions, laid by conservation officers under the *Game and Fish Act*, decreased by 12%. However, for the Northwest and Northeast Regions there was a 24% decrease in charges. The reduction in patrols may have resulted in violations not being detected and an increased risk of illegal activities putting pressure on the wildlife resources.

The reduction of patrols may have serious consequences for the province's fish and wildlife resources. For example, we were informed by the Ministry that the reduction of moose tags and reduced patrols may have resulted in increased poaching in the Northeast Region. However, no statistics are maintained on the known incidences of poaching throughout the province nor is the true extent of the problem known.

### Recommendation

To help sustain fish and wildlife resources and ensure compliance with legislation, the Ministry should review the level of enforcement activity in all areas of the province to determine whether sufficient deterrent patrols are being carried out by conservation officers.

### Ministry Response

*The Ministry agrees that there is a need for ongoing review of the level and nature of enforcement activity in the province. Such a review was conducted as part of ministry business planning. As a result, the overall level of enforcement in the province was maintained in terms of the number of conservation officer "badges." However, there was a change in focus to provide a more comprehensive approach.*

*Field patrols continue to be important as a deterrent to illegal activity and to detect violations. Other tools such as special investigations, intelligence gathering and analysis place additional emphasis on resource violations which have the greatest potential to have an impact on resource sustainability.*

*In order to ensure appropriate levels of enforcement activity, support funding for field conservation officers has been increased in fiscal year 1998/99.*

*Ministry Districts and Great Lake Units are in the process of developing local compliance plans which will assist them in directing their enforcement staff and resources in the most efficient and effective manner.*

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## COMPLIANCE ACTIVITY AND VIOLATION REPORTING SYSTEM

Information on field enforcement activities is maintained on the Compliance Activity and Violation Reporting System (CAVRS). The system is designed to help management and conservation officers utilize enforcement resources more efficiently and effectively. It contains information on charges, warnings, convictions, penalties assessed and conservation officer activity. We reviewed the system and found that improvements were needed to give managers and conservation officers more complete and accurate information for better decision making. For example:

- The system does not include detailed activity codes to record the results of commercial fishing enforcement activities, such as the monitoring of industry port observers, the audits of daily catch reports, the inspections of processing plants, docks and boats, and the management of quotas. These are all important enforcement activities carried out by the conservation officers in the lake units.
- The system does not contain complete information on warnings issued to offenders because some conservation officers were not inputting the information. In the cases where the warnings were entered, the information was not detailed enough to enable the officers to identify repeat offenders. We were informed that this feature is important because conservation officers, knowing that an offender has already been warned, would charge the offender rather than issue another warning.
- Not all the patrol areas or zones were included in the system. Consequently, conservation officers have difficulty in entering the charges and activity information, resulting in incomplete information.

### Recommendation

To help management and conservation officers in enforcing compliance with the *Game and Fish Act*, the Ministry should identify the enforcement information required and suitably modify the Compliance Activity and Violation Reporting System to provide complete and accurate information.

### Ministry Response

*The Ministry agrees with this recommendation. We will modify the Compliance Activity and Violation Reporting System as necessary to provide complete and accurate information in support of field enforcement programs. This will include incorporating activity codes for commercial fishing enforcement and designation of local patrol areas.*

## HUNTING AND FISHING LICENCE SUSPENSIONS

Residents who hunt and fish in the province are required to purchase an Ontario Outdoors Card to which are attached all valid hunting and fishing licences. Anyone suspended from hunting or fishing due to a conviction under the *Game and Fish Act* is not required to surrender the Outdoors Card because other licences could still be valid.

When someone is convicted of an offence, a conservation officer is required to enter the conviction information and the Ontario Outdoors Card number into the Compliance Activity and Violation Reporting System (CAVRS). A survey carried out by the Ministry at 19 districts and lake units found that there is a need for conservation officers on patrol to be able to identify the Outdoors Cards of suspended individuals. However, when checking the validity of the licences of individuals who are hunting or fishing, conservation officers are not able to access the CAVRS to identify suspended persons. In order to alert other conservation officers about suspended persons, some officers have punched holes in the Outdoors Cards. However, the Ministry has no approved procedures currently available to conservation officers to help check for suspensions during patrols.

In addition, the Ministry has an Outdoors Card Information System (OCIS) that is used to issue hunting and fishing licences. The Outdoors Card numbers in OCIS and CAVRS are matched to ensure that individuals suspended from hunting and fishing do not obtain a licence. For the matching control to be effective, conservation officers must ensure that the Outdoors Card number for each convicted individual is entered into CAVRS. However, when an individual does not have an Outdoors Card, only personal information and the court order is entered into CAVRS. Consequently, OCIS cannot be matched with CAVRS to prevent suspended individuals from obtaining a licence.

We reviewed all 255 hunting and fishing suspensions as at February 1998 and found there was incomplete information on CAVRS to effectively control suspensions. We noted that 56 individuals had no Outdoors Card number recorded in CAVRS even though OCIS indicated that 9 of them had an Outdoors Card at the time of their conviction.

Additionally, three other individuals in our sample had obtained an Outdoors Card and licences after they were convicted. This is allowed as long as the individuals do not participate in the activity for which they were convicted. However, we noted that one of these three individuals had been convicted for fishing offences and was suspended from fishing all species until July 1998. Moreover, a court order had prohibited the accused from obtaining any recreational fishing licence. However, OCIS indicated that this individual had purchased a one-year fishing licence and an Outdoors Card in October 1997 when still under suspension. This situation occurred because an Outdoors Card and a licence can be obtained without the issuer performing a review of active suspensions.

### **Recommendation**

**In order to properly track suspended individuals and to make the suspension system more effective, the Ministry should:**

- **enhance the system to help conservation officers on patrol identify suspended individuals;**
- **ensure that conservation officers input all the required information into the Compliance Activity and Violation Reporting System; and**
- **implement procedures to prevent suspended individuals from obtaining a licence.**



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### **Ministry Response**

***The Ministry agrees with the intent of this recommendation.***

***The Compliance Activity and Violation Reporting System is currently able to provide conservation officers with information regarding licence suspension, provided that the information has been entered and is current. The Ministry has emphasized to all enforcement staff the requirement to enter compliance reports on a timely basis.***

***The Ministry is developing a mechanism, consistent with Freedom of Information and Protection of Privacy requirements, for staff to flag records in the Outdoors Card Information System (OCIS) where a licence should not be issued or renewed.***

***Since there is currently no direct electronic linkage between the OCIS system and outside licence issuer "point of sale," persons with licence suspensions will not be detected by local licence issuers when they go to renew their licences. Given the number of licence issuers across the province, it would be an extremely difficult and costly initiative to establish direct "real time" communications with all issuers. However, as new technologies such as Integrated Voice Response are expanded, the Ministry will explore mechanisms for preventing the sale of licences to individuals who are under suspension.***

## **THE FISH INSPECTION ACT**

Under the provincial *Fish Inspection Act*, conservation officers are responsible for ensuring that no person can sell, or offer for sale, any fish intended for human consumption that is tainted, decomposed or unwholesome. Persons committing an offence under this Act are liable for a fine of not more than \$500. Fish for export are governed by the federal *Fish Inspection Act*.

In our 1989 report on the Fisheries and Wildlife Management Activities we noted instances of illegally caught, contaminated Lake Ontario walleye that were destined for Ontario markets and restaurants. During our current audit, we noted that a number of charges had been laid for the sale of contaminated Lake Ontario walleye. Ministry staff indicated that there is a large profit to be made from the sale of fish and that the fines under the *Fish Inspection Act* do not act as a deterrent. The fines have not been updated since 1955.

### **Recommendation**

**To help prevent the sale of contaminated fish, the Ministry should review the level of fines in the *Fish Inspection Act* and take the steps necessary to make the fines a more effective deterrent.**

### **Ministry Response**

*The Ministry agrees that the fines under the provincial Fish Inspection Act should be updated and will pursue this matter.*

## **DUE REGARD FOR ECONOMY AND EFFICIENCY**

### **ADMINISTRATIVE TIME**

The administrative time of conservation officers relates to non-enforcement activities such as general administration, meetings and training. The proportion of total working hours spent on administration over the last three years has averaged 31%, which is consistent with other law enforcement agencies. However, in four districts the time spent on administration was significantly higher than the average, ranging up to 48% of the total time.

Conservation officers, responding to our questionnaire, indicated that their administrative time had increased. Consequently, the time available for deterrent patrols has been reduced. For example, a conservation officer at the lake unit having the highest volume of commercial fishing activity spent approximately half of the total working time checking the accuracy of the daily catch reports before they were input into the computer. Previously this function had been performed by office clerical staff. This supports concerns expressed by conservation officers, both at the districts we visited and in the questionnaire, regarding their inability to carry out general deterrent patrols.

### **Recommendation**

**The Ministry should fully explore alternatives for reducing the administrative time of conservation officers in order to increase their visibility in the field and thus help deter illegal activity and protect fish and wildlife resources.**

### **Ministry Response**

*The Ministry agrees that time spent by conservation officers on administrative matters should be minimized wherever practical, consistent with sound business practice. Supervisors have been directed to ensure that conservation officers manage the time required for administrative functions in the most effective way possible.*

## **FISH AND WILDLIFE SPECIAL PURPOSE ACCOUNT**

Effective April 1, 1996 the Ministry established a Fish and Wildlife Special Purpose Account in the province's Consolidated Revenue Fund. All revenues received under the *Game and Fish Act* are deposited to the Account and used, as directed by the Minister, for making payments relating to fish and wildlife resource management and conservation. Specifically, the Act requires that funds from the Account can only be used for the management, perpetuation

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or rehabilitation of fish or wildlife populations, and the activities of individuals interacting with or affecting fish or wildlife populations.

During the 1996/97 fiscal year, the Ministry estimated that \$39.2 million would be required from the Account for fish and wildlife expenditures, and withdrew this amount. However, the Ministry's financial system recorded only \$34.7 million in actual program expenditures charged to the Account. Ministry staff had not properly documented and recorded fish and wildlife program expenditures totalling \$4.5 million.

In addition, the Act requires the Minister to prepare an annual report on the financial affairs of the Special Purpose Account to be tabled in the Legislature. As of March 1998, the required report for the year ended March 31, 1997 had not been tabled.

### **Recommendation**

**To account for the funds charged to the Fish and Wildlife Special Purpose Account and to ensure that they relate to fish and wildlife activities, the Ministry should maintain proper accounting records.**

**In addition, the Ministry should submit the required report on the financial affairs of the Account for the 1996/97 fiscal year and ensure that future reports are tabled on a more timely basis.**

### **Ministry Response**

*The Ministry agrees that expenditures charged to the Special Purpose Account (SPA) should relate to fish and wildlife activities and that proper accounting records should be maintained. The Ministry believes that there needs to be clear accountability for expenditures charged to the Fish and Wildlife SPA. The Ministry is reviewing the accountability framework for SPA management to strengthen the requirement for proper accounting and to establish processes to monitor the achievement of accurate record-keeping.*

*The Ministry agrees that annual reports on the financial affairs of the SPA should be tabled in a timely way. A combined report for fiscal years 1996/97 and 1997/98 is being developed and is targeted for completion in 1998.*

## **HUNTING AND FISHING LICENCES**

The Ministry received \$37 million in revenues from the various types of hunting and fishing licences issued during the 1997/98 fiscal year. Individuals purchase these licences through a network of approximately 2,100 issuing agents appointed by the Ministry. The majority of issuing agents are fishing tackle and hunting stores, hardware stores and various recreational outlets. Each year the Ministry sends issuers a supply of licences based on the preceding year's sales volume. Issuers are required to remit the monthly proceeds from the sale of licences.

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During our 1989 audit of the Fisheries and Wildlife Management Activities, we concluded that controls over the issuing of licences were unsatisfactory. However, in our current audit we reviewed remittances from issuers at five district offices and found that proper controls were in place for ensuring that all issuers were submitting the required revenue on a timely basis.

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# Science and Information Resources Division

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The mandate of the Ministry of Natural Resources is to achieve the sustainable development of the province's natural resources, including the development of the economies and communities that depend on these resources. The Science and Information Resources Division of the Ministry provides leadership in the development and application of scientific knowledge, information management and information technology, primarily in the two program areas of fish and wildlife, and forest management.

The Division comprises three branches: the Science Development and Transfer Branch, the Information Management and Systems Branch, and the Information Technology Services Branch. These branches provide scientific and information resources to external users as well as other divisions and maintain the Ministry's computer and telecommunications infrastructure.

For the 1997/98 fiscal year, the Science and Information Resources Division employed approximately 500 staff, and its expenditures totalled \$63.5 million.

## OBJECTIVES AND SCOPE

The objectives of our audit of the Science and Information Resources Division were to assess whether:

- program resources were properly managed with due regard for economy and efficiency; and
- satisfactory procedures were in place to measure and report on the effectiveness of the Division's activities.

The criteria used to assess the Division's activities were discussed with, and agreed to, by ministry management and included standardized research and information life cycle methodologies. These methods included identifying research and information needs, prioritizing and selecting from competing alternatives, monitoring performance and reporting on the progress toward achieving the intended results.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value-for-money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

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The scope of our audit, which was substantially completed in March 1998, included a review and analysis of documentation and discussions with ministry staff at the head office as well as regional and district offices. We also reviewed a sample of files for scientific and research activities and information management and technology projects.

Our audit also included a review of the audit plans and relevant reports issued by the Ministry's Audit and Evaluation Section. As a result of this review, we did not reduce the scope of our audit work because, other than a review in 1997, the Section had not issued any recent audit reports on the Ministry's administration of the Science and Information Resources Division. However, many of the issues raised in this report had previously been brought to management's attention through internal audits and reviews.

## 3.10

### OVERALL AUDIT CONCLUSIONS

The Science and Information Resources Division did not ensure that certain program resources were adequately managed with due regard for economy and efficiency, and satisfactory procedures were not in place to measure and report on the effectiveness of the Division's activities. Specifically, the Ministry needed to implement standardized scientific research and development life cycle processes. With regard to information resources and technology, we found that the Ministry's administrative procedures required significant improvement to ensure compliance with mandatory government policies and the Ministry's own procedures. Some of our major concerns were as follows:

- The Ministry's overall science needs were not prioritized, and researchers were not required to support their proposals for new projects with objective analysis and input from the Ministry's other divisions.
- Scientific research plans did not include milestones or other meaningful indicators against which the scientific efforts could be measured and evaluated. As well, post-project evaluations to assess the usefulness of science activities were neither required nor provided.
- Information technology project plans did not include proper business cases to justify the costs of the projects, and systems were not in place to reliably monitor project costs.
- Contrary to mandatory government policy, consultants were frequently engaged without competition. As well, our review of a number of competitions for a major project revealed that the process favoured consultants who had previously worked on the project. Competition was also avoided and Management Board of Cabinet's Directives were circumvented by splitting work into a number of smaller, successive assignments.
- In December 1996, the Ministry entered into a computer lease agreement for \$21 million before determining specifically what computer equipment it required. This resulted in numerous adjustments to the initial contract and an increase in costs totalling \$7 million.
- The Ministry did not obtain the required approval from Management Board Secretariat for the information technology leases entered into since June 1996, which are valued at approximately \$66 million.

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- The Ministry could not provide details of exactly what computer equipment it had leased or how the lease costs were determined and paid the supplier without evidence that all the equipment ordered had been received.
  - The Ministry did not have an accurate listing of its leased and owned computer equipment. We found a substantial number of assets that were either observed but not recorded on the Ministry's asset listing, or recorded but not found at the location listed.

Many of the information technology concerns raised in this report had previously been brought to management's attention through work performed by the Ministry's Audit and Evaluation Section. However, management had not put the necessary controls in place to ensure that proper practices were followed. We were informed that the Division had committed to institute the recommendations presented in the latest internal audit report, a review of procurement practices.

## DETAILED AUDIT OBSERVATIONS

### SCIENCE DEVELOPMENT ACTIVITIES

The Science Development and Transfer Branch is responsible for the administration of the Ministry's science program to support decisions about the management and sustainability of the province's natural resources. During the 1997/98 fiscal year, the Ministry spent approximately \$27 million on over 350 science projects primarily for the benefit of the Fish and Wildlife program, and the Forest Management program. These projects included efforts to control rabies, fish and wildlife demographic assessments and research to improve forest growth and yield.

The overall objective of the Ministry's science program is to lead in the development of strategic plans and priorities, and to develop science projects to acquire the information and knowledge necessary for resource management decisions. The Branch provides science information to program managers through workshops, working teams and publications.

Branch staff are also responsible for evaluating the efficiency and effectiveness of the projects and for developing partnerships and alternative delivery mechanisms to increase the overall provincial investment in science projects that address the Ministry's needs and priorities.

### SETTING DIRECTION AND SCIENCE PRIORITIES

Strategic directions encompassing a clear set of goals, priorities and expected results should guide scientific decisions and, ultimately, the selection of specific projects. In October 1996, the Ministry issued the Strategic Plan for Science and Technology which set broad long-term directions and defined processes for establishing science priorities and managing resources. This document outlined good processes for scientific research, such as a quality assurance and reporting process, to ensure the provision of quality services. The Plan also outlined a strategic framework of operational principles which included requirements for a needs analysis, contracts with program areas and standardized reporting. However, we found that most of the processes defined in the Plan had not been implemented and that the Plan did not have a timeframe for implementation.



We noted that adequate procedures were not in place to ensure that the broader science needs of the Ministry were included in the science work done by the Science Development and Transfer Branch. Although some individual work units within the Branch had prepared strategic plans to ensure that the overall ministry direction was considered, most units of the Branch had not addressed the Ministry's overall strategic direction. We also noted that the broader ministry science goals and objectives were not translated into more specific or concrete goals at the branch level.

In addition to overall directions for scientific research, there should be a clear set of priorities based on a full understanding of the Ministry's program needs. Although there was a process in place to identify program needs, the Ministry did not have a clear set of priorities established for its science activities or a formal process in place for establishing priorities. An October 1997 internal review of two of the Ministry's largest science programs also concluded that a clear and more rigorous process for priority setting was required. Several of the Ministry's own science units clearly documented the need to identify end points for projects and have priorities in place for the reallocation of funds to the next priority. We were informed by branch staff that several science projects and activities had been funded for many years without either a demonstrated need for the data collected or a clear idea of how the data were being used.

Besides a lack of science priorities, we found that inadequate mechanisms were in place to hold the Branch accountable to its users. The program area business plans had an implicit expectation that the right type of research would be done to support the programs. While the Ministry had recently established branch/program committees to improve input, neither the Fish and Wildlife nor the Forest Management business plans contained a clear statement of needs and priorities to provide direction to the Branch and to hold the Branch accountable. Without clear program area requirements, it is difficult for the Branch to set proper priorities to carry out the right research to meet program needs.

### **Recommendation**

**To ensure that scientific research contributes to the effective management and sustainable development of the province's natural resources, the Ministry should:**

- **implement the processes outlined in the October 1996 Strategic Plan for Science and Technology;**
- **develop clear research priorities in consultation with the program areas; and**
- **establish clear relationships with program areas that hold the Science Development and Transfer Branch accountable for the delivery of research results that meet their users' needs.**

### **Ministry Response**

***The Ministry will implement these recommendations.***



*As a result of business planning in 1996, the Ministry has developed an annual priority list of science needs and program areas for 1997/98 and 1998/99. The Ministry has established a science team, consisting of program area and science managers, which ensures that client input and approval are received for science priorities. Because of the rapidly changing nature of the Ministry's policy agenda in recent years, there has been a requirement for flexibility in the process of setting science priorities.*

*In response to these recommendations, the Ministry will continue to strengthen consultation efforts to improve the list of science priorities to meet the needs of the Ministry and program areas. The Ministry will improve the process for establishing broad science priorities.*

## PROJECT SELECTION

The Science Development and Transfer Branch has experienced significant funding and staffing reductions over the past three years. Consequently, the Branch's large number of scientific projects increasingly compete for limited financial resources. The Ministry had not developed project selection criteria and did not have a formal process in place to compare and select the most critical projects for funding. Project selection was often informal and based on the uninterrupted continuation of the previous year's activities. Over 90% of the projects funded in the 1996/97 fiscal year were carried forward from the previous year. The Ministry also did not have a formal rationalization process in place to determine periodically if each project should be continued, modified or terminated.

Researchers are not required to support their project proposals with objective analyses of opportunities, challenges, risks and alternatives based on consultations with the program areas. The majority of the projects we reviewed included varying types of information which would make it difficult for management to compare and evaluate competing proposals objectively. For example, one forest science project proposal included the results of a survey as well as other analyses to justify the need for the research. Another project in the same area of study did not include any support or justification for its research proposal. Both projects were funded despite the lack of information to justify the latter proposal.

The lack of a complete and objective evaluation of project proposals based on predetermined criteria limited the ability of management to select projects that would provide the greatest possible benefit to the programs. Standards indicating the form and content of science proposals would assist branch management in assessing competing proposals. Documentation of the rationale and criteria used for selecting one project over another would assist branch staff in developing better justified proposals in the future.

### Recommendation

**To ensure the selection of those science projects that best achieve the Ministry's objective of the sustainable development of the province's natural resources, the Science Development and Transfer Branch should:**

- implement standard project proposal requirements which include program area input, the expected time to complete the project with critical interim milestones, the estimates of the full cost of the project, the anticipated results and the likelihood of success;
- develop clear criteria for the selection and approval of projects for funding;
- annually evaluate each project to determine if funding should be continued, modified or terminated; and
- document the rationale for selecting new proposals and the decisions regarding ongoing projects.

### **Ministry Response**

*The Ministry will implement these recommendations.*

*The Ministry was aware of these issues following business planning in 1996 and was implementing plans to deal with them.*

*In response to these recommendations, the Ministry will accelerate implementation efforts. The Ministry is implementing science working groups which are accountable for planning, management and evaluation of science projects. The Ministry will ensure that the working groups address the recommendations with respect to requirements, criteria, evaluation and documentation. The Ministry will review the skills of science managers in project management and the technology on hand for efficient project tracking, and will improve them where necessary.*

## **RESEARCH MONITORING AND REPORTING**

The Ministry's monitoring process requires researchers to prepare a summary of each project for the annual work planning process. The work plan summary provides a brief description of the project, objectives, duration and funding required for the upcoming year. However, we noted that work plans did not include time-phased budgets, were not focused on results, and often did not contain milestones or other meaningful indicators against which performance could be measured. In those cases where deliverables were included, these were often general statements of activities and did not provide sufficient detail for managers to evaluate the project's expected outcomes.

Project monitoring, in addition to the annual work planning process, is generally informal, with minimal tracking and consolidation of performance data. Having good information on the ongoing results achieved can assist management in determining if projects are progressing toward their expected results and continue to be relevant to program objectives. Performance information is needed to determine whether to modify the project, terminate some activities or launch new science initiatives. In addition, results information is needed if science managers are to be held accountable for the resources they manage.

Once a science project is completed, the results are transferred to the program areas through reports, workshops, working teams or publications. None of the completed projects we

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reviewed had carried out post-project evaluations to determine if the research results transferred had benefited the program areas. Our interviews with research staff also confirmed that the Ministry did not perform this type of evaluation. Post-project evaluation procedures, such as program area follow-ups or surveys, could be used to determine if research was implemented, beneficial and cost effective. Post-project evaluations could also assist in setting future directions and enhance communications with the program areas.

### **Recommendation**

**To ensure that all projects are progressing as expected and continue to be relevant to the program needs, the Ministry should:**

- **develop standardized monitoring procedures which include the tracking of critical reassessment milestones;**
- **ensure that the annual science project summaries contain sufficient detail to assess progress to date and the likelihood of achieving the expected results; and**
- **implement post-project evaluation procedures to determine if completed science projects benefited the program areas.**

### **Ministry Response**

*The Ministry will implement these recommendations.*

*The Ministry was aware of these issues following business planning in 1996 and was implementing plans to deal with them.*

*In response to these recommendations, the Ministry will accelerate implementation efforts. The Ministry will ensure that the science working groups address this recommendation with respect to monitoring procedures, annual science project summaries and evaluation. The Ministry will review the skills of science managers in project management and the technology available for efficient project tracking, and will make improvements where necessary.*

## **RESEARCH FUNDING**

The Science Development and Transfer Branch receives funding from the two main program areas: the Fish and Wildlife program, and the Forest Management program. Funds are provided to the Branch with a broad expectation that the right projects would be done to meet program needs. Specific expectations were generally not provided by the program areas and their needs were not well defined. The funding mechanism was designed to hold the Branch accountable to the program area. However, the Branch invariably decided what research was appropriate for the program areas.

After a project receives initial funding, allocations in subsequent years are usually based on historical levels and not demonstrated need. By funding science projects on a historical basis, the Ministry fails to identify and rationalize its science funding needs within and across its



science focus areas. For example, one forest research unit documented its decision to fund only existing projects at 80% of the previous year's level, without consideration of variable funding requirements or new and possibly higher priority projects.

Research typically has a long-term focus with high uncertainty. Therefore, there is a need to match funding to the life cycle of individual projects. We were informed that the life cycle of many scientific research projects can be as long as 10 years. From our interviews with science managers, we noted that the existing funding methods do not encourage work on long-term projects. Typically, there is a large infusion of funds in the early stages of a project, but subsequent funding declines. We were informed that, since it can often take two years to design a project and prove the concept is workable, by the time the project reaches the research phase, there may not be sufficient funding to complete the project. Research managers indicated that in order to get good research results, there was a need to look at both long-term and short-term priorities.

Funds are allocated to projects annually without mechanisms to ensure the long-term commitment to research projects. This has led some managers to try to ensure future funding for their projects. For example, we noted that, from 1990 to 1993, funds totalling \$3 million were transferred to a government agency rather than returned to the Consolidated Revenue Fund, to ensure that funding for projects would be available in future years. However, if subsequently such projects became low priority or were not progressing as planned, funds could not easily be retrieved and transferred to other projects within the Ministry.

#### **Recommendation**

**To ensure a balance between annual or short-term funding and the requirements of long-term research projects, the Ministry should consider a funding model that includes the full life cycle of projects and addresses fluctuations in funding requirements.**

#### **Ministry Response**

*The Ministry will implement this recommendation.*

*The Ministry will increase efforts with senior management and program areas to emphasize the requirement for multi-year funding commitments where required. The Ministry will ensure that the science working groups prepare more accurate estimates for the life cycle of projects.*

## **INFORMATION SYSTEMS MANAGEMENT**

The Information Management and Systems Branch develops, implements and maintains all computer applications including the design and administration of the Ministry's database structures, data architecture and data repositories. The Branch's responsibilities also include georeferencing, developing information policies, performing business analyses and assisting with information planning.

The Branch's expenditures for the 1997/98 fiscal year were \$18.5 million.



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## IDENTIFICATION OF INFORMATION NEEDS

The Branch encouraged program areas within the Ministry to undertake an evaluation of their information needs and develop information management and systems plans. During the 1997/98 fiscal year, one program area evaluated its information needs and completed an information management strategy. This evaluation noted that:

- The computerized information requirements of the program were not being met as less than half of the information required was being produced.
- Some of the data sets were highly fragmented, and difficult to access and integrate. Most data sets were not well documented and were lacking corporate standards for data content and structure.
- Small corporate systems were being developed without a full understanding of the information requirements of the business processes, corporate data architecture, corporate data standards, and long-term maintenance, training and support.
- There was a lack of project management and a failure to deliver the required products.

The Branch and program area had initiated a plan of action to address the weaknesses found. Overall, management indicated that the Ministry would attempt to correct these problems as existing applications were scheduled for enhancement, rewrites or re-engineering.

Not all program areas had determined whether existing information systems met their needs. Therefore, for the 1998/99 fiscal year, all program areas will be required to incorporate information-management-related data requirements in their business plans. This would include information management requirements, an estimate of resources needed to meet these requirements, and the expected impact on the Ministry's ability to provide products and services to external customers, partners or other stakeholders. These requirements help to identify the needs of the program areas, and should then form part of the strategic direction of the Information Management and Systems Branch.

### **Recommendation**

**Where the 1998/99 business plans indicate that systems are lacking or deficient, the Branch should work with the program areas to formulate a strategy to meet their information requirements.**

### **Ministry Response**

***The Ministry will implement this recommendation.***

***The Ministry developed its first five-year information strategic plan in 1990 which identified priority information systems for development. Commencing in 1996, the Ministry underwent significant downsizing and core business re-engineering. The process of identifying information needs was conducted as an integrated part of these activities.***

***During the period 1996 to 1997, all but one of the Ministry's major business areas had assessed and acted upon their information needs. The remaining business area has recently evaluated its information needs consistent with the other business areas and is implementing an action plan.***

***In addition, the Ministry has resumed medium- and long-term information planning as part of its overall business planning activities. The Ministry has appointed business area information coordinators to undertake strategic planning in their respective business areas, to develop information planning standards and guidelines across the business areas, and to assist in the implementation of the plans.***

## 3.10

### PROJECT PLANNING AND SELECTION

The Ministry's 1997/98 Program Direction for Work Planning indicates that each corporate information system application is to be considered by a priority setting committee within each program area during the annual work planning process. Although projects were prioritized at a high level, the Ministry did not have standards for project submissions or clearly documented selection criteria to be used when choosing among competing projects.

We reviewed three major system development projects as well as the development of a minor corporate system. These projects accounted for over half the Branch's total activity funding. We found that all the major projects were identified by the program areas as a high priority for the 1997/98 fiscal year and were a continuation of the previous year's activities. The following are our concerns regarding the selection and management of systems development projects:

- To allow the Ministry to make fair comparisons among projects competing for funding dollars, all potential system development projects should be supported by a business case that establishes initial feasibility for the entire project, expected timeframes, and a reasonable estimate of both tangible and intangible costs and benefits. Without this type of information it is difficult for the Ministry to properly manage the projects to ensure the economical and successful completion of the project. For the projects we reviewed, a proper feasibility study had not been done and the documentation that did exist to justify the projects was insufficient.
- The Ministry did not maintain centralized system development project files. Such files normally contain the planning documents, budgets, project approvals and periodic status reports.
- Part of the project planning phase includes a list of the key activities necessary to carry out the project. These are to be organized into a work flow plan which is used to determine the completion date for the project. We noted that key activities and work flow were detailed for the projects we reviewed. However, these plans were not updated regularly to provide information on whether milestones were being achieved according to schedule. Although ministry staff received project status reports, in some cases it was not clear from the progress reports which milestones had been achieved.

## Recommendation

To properly manage information technology projects, the Ministry should ensure that project plans include a business case, the approach for doing the project, activities to be completed, resources necessary, periodic reporting and target completion dates. In addition, all relevant documentation should be kept in a project file.

## Ministry Response

*The Ministry will implement the recommendation.*

*The projects reviewed for this audit were initiated as a result of the significant downsizing and core business re-engineering during the period 1996/1997. These projects were essential for implementing required business changes within the appropriate timeframe. Accordingly, the business cases for new core business models that were submitted to and approved by ministry executive committees and Management Board provided the business rationale and approvals for systems projects.*

*Now that the Ministry is emerging from this crucial transition period and its business is stabilizing, standard business cases and feasibility studies are again an appropriate part of the information and information technology planning cycle. Furthermore, in order to facilitate information planning, project selection and project management within the Ministry's new business structure and accountability framework, the following actions have been taken:*

- business area information coordinators have been established;*
- a senior management level steering committee has been established;*
- a framework for roles, responsibilities and accountability for information-related planning, project selection and management has been developed; and*
- detailed procedures for the above are under development, including the requirements for a centralized project documentation repository and standards for updating information in this repository.*

## PROJECT MONITORING

Proper project planning, budgets and milestones are not only important at the inception of a project but are also essential for effective ongoing project management. Reviews of these aspects of the project are important for marking progress and should be done at various phases of the project to determine its continued technical and financial soundness.

In the one case where a cost/benefit analysis was done, we found that the Ministry did not update the information regarding future costs, expected benefits and risks as the project life cycle became better known. In addition, the Ministry did not routinely monitor any information



technology project costs. Only one project manager informed us that cost data were collected on a regular basis and compared to a budget. There was confusion over who was responsible for monitoring costs.

We also found that the system in place to track such information was not reliable. For example, for one project, the manager's records indicated that the project had incurred costs of \$438,000 by December 31, 1997, while the Ministry's Integrated Financial and Administrative System indicated total expenditures to be \$157,000. No reconciliation was performed to determine which was the correct amount. Without accurate cost information, it would be difficult to properly manage a project and determine if planned budgets and expected benefits were being achieved.

With respect to periodic reporting on the progress of the project, the Ministry did not have a standard reporting process in place. Some project managers reported verbally, while others provided a brief written status report each quarter. However, where status reports were submitted, we found that these did not address all the milestones noted in the plan, making it difficult to determine if activities were adhering to plans to ensure successful project completion.

### **Recommendation**

**To ensure the successful completion of information technology projects on time and on budget, the Ministry should develop a formal monitoring process to track project costs and require status reports that include progress toward the milestones, related deliverables and benefits stated in the project plan.**

### **Ministry Response**

*The Ministry will implement the recommendation.*

*To ensure adequate project monitoring and accountability to the funding business area, each project was governed by a technical manager, business area project manager and business area steering committee. Detailed documentation regarding project progress and financial status was maintained by the project managers and reported directly to the steering committees and business area management on a regular basis. This model of interaction between the business sponsors and the systems projects (including direct and ongoing access to project documentation regarding progress and financial status) replaces the need for quarterly or semi-annual status reports. Accordingly, business areas are able to monitor costs and progress as a regular part of their business management activities. Although this model has proven quite effective, the Ministry agrees with the observation that formal standards, guidelines and procedures would ensure consistency, accuracy and completeness. Action is being taken to put these in place.*



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***The Ministry also agrees that a centralized repository of project documentation should be maintained, including standard progress reports referring to planned milestones. The Ministry has acted to develop such a repository complete with on-line access for all ministry staff. Furthermore, project managers will be required to update the corporate financial system as to their expenditures in addition to maintaining detailed project budgets. This will ensure that corporate records and project records are routinely reconciled and clearly assigns fiscal accountability to the project managers.***

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## CONSULTING SERVICES

Over \$15 million was spent throughout the Ministry to acquire the services of information technology consultants during the 1997/98 fiscal year. To acquire such services, ministries must comply with Management Board of Cabinet Directives which state the key principles for the decisions made in the planning, acquisition and management of consulting services. These principles are designed to ensure that suppliers are treated in a fair, equitable and responsible manner and that the best value is received for the funds expended. Ministry policies elaborate on the government-wide requirements.

We examined a sample of information technology consulting assignments to determine whether the Ministry was following its own policies and Management Board of Cabinet Directives and Guidelines. We noted that the Ministry did not have adequate procedures in place to ensure that the requirements regarding the acquisition of consulting services were adhered to, as the following examples illustrate:

- To ensure the best value for the funds expended, ministries are required to procure all consulting services competitively. For services estimated to cost \$25,000 or more, a competitive tendering process is required, while the Ministry must develop policies to ensure the receipt of the best value when costs are expected to be less than this amount. However, the required competitive tendering process was not used for 30% of the consulting assignments we reviewed. Documented waivers were not on file to justify or approve the departure from the required competitive process.
- Competition must not be avoided by awarding the same consultant successive agreements, each less than the \$25,000 limit but totalling more than this amount. We noted three instances in our sample where consultants were awarded successive agreements where each agreement was less than \$25,000 but the cumulative total was more than this limit. These follow-on assignments were not unique or different and the terms of reference for the new assignments had not changed substantially.
- Management Board Directives state that the process for selecting a supplier must be open and fair, and that ministries must not permit a supplier to gain a monopoly for a particular kind of work and must not continuously rely on a particular outside organization. To evaluate bids submitted, the Ministry often used predetermined criteria which included both mandatory and desirable skills and experience. We reviewed the selection process for ten contracts that were part of a major information technology project. The desirable criteria used to evaluate bids included such items as knowledge of the architecture for and experience in developing the project, and knowledge of the Ministry's strategic data

requirements and direction. While many of the bidders met the Ministry's mandatory criteria, only those that had previously worked on the project were awarded contracts. We found that the Ministry's competitive process gave an advantage to consultants who had previously worked on the project.

- Management Board Directives emphasize that agreements with former employees must bear the closest public scrutiny and must not be entered into when an unfair advantage in securing the assignment exists. However, three months after an employee left the Ministry, the Ministry entered into an agreement for the services of the former employee, without a competitive process. From January to September 1997, this individual was issued nine separate purchase orders totalling \$198,000. The work undertaken was to support, implement and test various information technology projects, which was essentially the same work the consultant had performed as an employee. The daily charge rate for this consultant was \$550, whereas the same individual was paid \$225 a day, including benefits, as a ministry employee.
- Management Board Directives require formal written agreements for all assignments between the Ministry and consultants, outlining their respective roles and responsibilities. Agreements are required in the event that disagreements arise or performance is so poor that the assignment will likely be terminated. However, signed contracts were not on file for 32% of the assignments we reviewed. These assignments ranged from \$6,000 to as much as \$443,000.
- Management Board Directives state that the ceiling price of an agreement must not be exceeded if the terms and conditions of the agreement remain unchanged. In our sample of consulting assignments, 27% were paid more than the ceiling price of the contract, with individual agreements exceeding the contracted amount by, in one case, as much as \$57,000. In all cases the terms and conditions of the original agreements had remained the same and the Ministry had not documented why the original ceiling price had been exceeded.
- Ministry policy requires that, upon completion of each consulting assignment, a formal evaluation be prepared to ensure that the Ministry has received the best value for the money expended and that the original scope of the project has been met. No such formal evaluations were prepared by ministry staff for any of the assignments we reviewed.

### **Recommendation**

**To ensure the receipt of the best value for the funds expended, the Ministry should comply with the mandatory requirements regarding the acquisition of consulting services, as specified in Management Board of Cabinet Directives and ministry policies, including the requirements that:**

- all contracts expected to equal or exceed \$25,000 be acquired through a competitive process and deviations from this process be adequately justified and approved;
- fair competition not be avoided by awarding the same consultant successive agreements which cumulatively exceed \$25,000 but individually are less than this amount;

- consultants be selected based upon an open and fair process, and suppliers not be permitted to gain a monopoly for a particular kind of work;
- arrangements with former employees bear the closest scrutiny, including fair and open competitions;
- written agreements be prepared for all consulting assignments;
- the ceiling price of assignments not be exceeded unless the change is justified and formally agreed to; and
- all consulting projects be formally evaluated upon completion.

### **Ministry Response**

***The Ministry will implement these recommendations and has initiated revised directions to ensure mandatory procurement policies for consultants are followed across the Ministry. We have already initiated additional staff training and will ensure more adequate documentation of evidence of compliance with policies.***

## **INFORMATION TECHNOLOGY MANAGEMENT**

The Information Technology Services Branch is responsible for providing the Ministry with reliable and secure information technology systems and services. The Branch's functions include providing overall direction and management of an integrated operating environment for the Ministry's information technology infrastructure, and developing information technology security policy and planning. The Branch is also responsible for the acquisition, maintenance and support of information technology systems and services. Expenditures for the Branch were \$18 million for the 1997/98 fiscal year.

The Ministry acquires substantially all of its information technology equipment through leases with one supplier. Leasing generally enables management to better plan for and manage its annual expenditures. Under the Ministry's previous leasing strategy, each program area acquired computer equipment independently. This resulted in several different types of computer system designs in use, making it difficult for the Ministry to properly support and manage its information technology infrastructure. In 1996, the Ministry set standards for the configuration of hardware and software and undertook the Technology Infrastructure and Workstation Rollout Project to reduce the different types of desktop hardware and software products in use throughout the Ministry.

Since June 1996, the Ministry has entered into leases for information technology equipment totalling approximately \$66 million. Of this amount, \$28 million pertains to workstations (desktop and laptop computers) and \$38 million pertains to servers and other computer equipment. Leasing arrangements were specified in a series of 13 active leases and 7 amendments with varying terms and conditions. Most of the assets had been leased for five years.



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## COMPUTER NEEDS ANALYSIS

Information technology plans which encompass a clear direction should guide the procurement of computer equipment. In this regard, a needs analysis is required to determine the computer needs of the various users. We did not find a complete documented needs analysis of the Ministry's technology requirements. Instead, we found incomplete information kept at various locations of the Ministry, with little or no rationalization of needs. In addition, management informed us that the user needs analysis was not completed prior to negotiating the first workstation lease for \$21 million in December 1996. This resulted in a number of adjustments to the initial contract which increased the cost by approximately \$7 million.

We question the prudence of signing a contract for computer equipment when the needs analysis had not been completed. The Ministry informed us that one adjustment for a \$3.9 million increase was due to a change in the types of computers initially ordered with no corresponding increase in the number of computers leased. However, the Ministry could not provide documentation to justify this change. The remaining \$3.1 million was for additional hardware and software acquired after December 1996, because users either received equipment that did not meet their needs or did not receive any equipment during the initial rollout, or additional equipment was required for newly initiated projects.

### Recommendation

**To avoid costly adjustments, before signing contracts the Ministry should ensure that the needs of users are identified, including the type and number of computers required.**

### Ministry Response

*The Ministry will implement the recommendations in this audit.*

*During the 1996 technology rollout, the Ministry was undergoing significant change as a result of downsizing, realignment and office consolidations. Accordingly, it was difficult to conduct a stable needs analysis. In order to facilitate the rollout, ministry management estimated the total number and configurations of computers required. This original estimate was used to frame the lease and project costs and is reflected in the initial lease agreement.*

*During the rollout, projected needs were modified on a site-by-site basis. This resulted in the deployment of more computing capacity than was originally estimated and corresponding amendments to the initial lease agreement.*

*The Ministry has initiated a review of its technology needs assessment processes and has undertaken to implement recommended enhancements in a timely fashion.*



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## LEASE AGREEMENTS

The Ministry carried out a tender to establish a vendor of record, and signed an agreement with the successful bidder in December 1993 to supply leased workstations, including desktop computers, laptops, printers and software. The agreement was for one year with a one-year renewal option bringing the maximum term of the agreement to December 1995. However, the Ministry extended the agreement to December 1997 without determining if the vendor's current prices were still competitive. As of March 1998, the Ministry further extended the agreement to June 30, 1998. The stated purpose of the renewal was to give the Ministry time to thoroughly evaluate its current leasing agreements and to acquire additional equipment. We question whether a 1993 tender could give the Ministry any assurance that the vendor was still offering competitive prices.

The Ministry's vendor of record was the same company used by Management Board Secretariat from July 1995 to January 1997 as the general vendor of record for the government. However, when the Ministry was negotiating a December 1996 workstation lease agreement, Management Board was in the process of retendering for the government vendor of record. This competition by Management Board resulted in the replacement of the vendor of record because the vendor no longer offered the best value. Therefore, it was questionable whether the Ministry continued to received the best value.

In addition, the same vendor was used to acquire all servers and other computer equipment. The Ministry indicated that the lease agreements related to these acquisitions resulted from a 1995 consolidation of several previously arranged leases which originated from an agreement initially signed in February 1990. However, the Ministry could not demonstrate that a competitive process was used to select the vendor in 1990 or that competitive prices were subsequently obtained. At the time of our audit, based on this 1990 agreement, the Ministry had entered into 50 separate lease amendments to purchase additional servers and computer equipment. The Ministry could not provide us with evidence that any of the 50 acquisitions were acquired competitively. Also, given the extraordinary changes in information technology in recent years, we question the Ministry's reliance on an eight-year-old contract to provide competitive pricing.

### Recommendation

**To ensure the receipt of the best value for its information technology expenditures, the Ministry should regularly tender for its computer equipment leases or use Management Board Secretariat's vendor of record for all future acquisitions.**

### Ministry Response

***The Ministry will implement the recommendation.***

***The Ministry has completed an external review of its current lease agreement and is comfortable that it has a competitive agreement. This has been confirmed by the fact that several other ministries have recently entered into or renewed lease arrangements with the same vendor based on similar reviews.***

*The Ministry is also currently working with Management Board to be included in the upcoming corporate request for proposal and standing agreement relating to the acquisition and leasing of information technology. This will position the Ministry to benefit if the resulting terms, conditions and rates are more competitive.*

*The current lease agreement was recently extended for a short period of time. This was to allow the Ministry to undertake the above activities and ensure subsequent actions continue to be in the best interest of the Ministry.*

## 3.10

### MANAGEMENT BOARD SECRETARIAT APPROVAL

When the planned contract value of the procurement of information technology is more than \$1 million, ministries are required to obtain Management Board Secretariat's review and approval of the requirements prior to purchasing. Such approvals help to ensure that purchases are not only economical but consistent with the overall government information technology strategy. However, the Ministry did not obtain Management Board approval for the information technology leases entered into since June 1996 which are valued at approximately \$66 million. As well, exemptions from this mandatory requirement were not obtained.

The last time the Ministry received approval for the acquisition of information technology equipment was December 1990, when Management Board approved the five-year Information Technology Strategic Plan which included infrastructure costs of approximately \$46 million for hardware and software. This approval did not cover any of the active leases since the Strategic Plan expired March 31, 1995, and the amount approved had already been spent. As of March 1998, including the \$66 million for active leases, the Ministry had either spent or had outstanding lease commitments of approximately \$130 million. These expenditures are \$84 million above the amount approved by Management Board in the 1990 Strategic Plan.

In addition to lacking proper Management Board approval, the employee who signed four contracts valued at more than \$60 million resigned his position at the Ministry shortly thereafter. We were informed that he accepted a job with a supplier of the computer equipment under those contracts.

#### Recommendation

**To ensure that information technology purchases are consistent with overall government strategies and that the government derives maximum benefit from information technology, the Ministry should obtain the required Management Board Secretariat approvals for all future leases over \$1 million.**

#### Ministry Response

***The Ministry will implement this recommendation.***

*The Ministry received Management Board approval and funding based on its original Five-year Information Technology Strategic Plan submitted in 1990. This plan established an annualized base funding level at maturity of approximately \$12 million dollars per annum. At the time of the lease re-negotiation, the Ministry's annualized lease payments were unchanged. As no significant changes in information technology infrastructure capacity or funding were being made and no additional funding was being requested, the Ministry proceeded on the basis that approvals received as part of the business planning and allocations process were adequate.*

*The Ministry will ensure it has appropriate approvals for its future information technology expenditures. Under the new Ontario Public Service Information and Information Technology Strategy, Management Board Secretariat has developed new guidelines and a new accountability framework for information technology. The Ministry has initiated revised directions to ensure compliance with this new corporate strategy. To this end, the Purchasing Section of the Ministry and the Science and Information Resources Division have issued new delegation of authority guidelines and procedures. Staff will be trained in the application of these guidelines and will be required to follow them.*

## MANAGEMENT OF INFORMATION TECHNOLOGY LEASES

From 1990 to March 1998, the Ministry had either spent or had outstanding commitments for computer equipment leases totalling approximately \$130 million. With lease commitments and costs of this magnitude, it is important to have an effective monitoring system in place to ensure that the Ministry is paying the proper amount for items that it receives. Also, when entering into any lease, it is prudent business practice for the Ministry to involve its legal department to ensure that the terms and conditions are such that the government is legally protected and is committing to what was determined through the tender process. In this regard, we noted the following:

- The leases are complicated because, as of February 1998, there were 13 active leases and 7 amendments with varying terms and conditions. These leases had not been reviewed by the Ministry's legal department. After we asked questions regarding the agreements, the Ministry requested the legal department to review the current terms and conditions of the leases, almost a year after the first of the active leases were signed.
- The majority of computer equipment is leased for a term of five years whereas the Ministry indicated that the useful life of the equipment is only three years. The Ministry advised us that after two years it intends to upgrade some of its computers. To upgrade, the Ministry would have to pay an amount equal to the unpaid portion of the original cost of the equipment less fair market value of the equipment at the time of the upgrade, plus an interest charge. When upgrades are made, the Ministry enters into a new lease agreement for the new equipment. This will result in a continuous reliance on this supplier for computer equipment without the Ministry assuring itself that prices are still competitive.



- The Ministry does not have an adequate system in place to control existing lease arrangements. This becomes especially important when staff change during the term of the lease. Information on the leases was kept in various managers' offices, even when they were no longer with the Branch. Our discussions with staff indicated that they could only provide us with information on leasing agreements with which they were involved and not those arranged by previous managers.
- The Ministry did not have any information indicating how the lease costs were determined. In addition to the new equipment, the Ministry was already leasing equipment from the supplier which was rolled into the new leases dated June and December 1996. The value of the equipment already on hand was included in the new leases at \$22 million for servers and other computer equipment and \$14 million for workstations. The Ministry was unable to demonstrate that the blended lease costs were reasonable and relied on the supplier to determine these costs.
- The Ministry made payments to the supplier without evidence that all the computer equipment leased had been delivered. The Ministry did not reconcile the receipt of information technology equipment to the lease agreement to ensure that the lease payments were appropriate.

### **Recommendation**

**To provide the Ministry with legal protection and ensure that the terms and conditions of contracts are appropriate, the Ministry's legal department should be consulted on all contracts.**

**To ensure that payments are made only for computer equipment received, the Ministry should set up a proper lease management system.**

### **Ministry Response**

*The Ministry will implement these recommendations. Procedures have already been established whereby the Ministry's legal services must be consulted before entering into any new contracts. The Ministry will enhance its control of lease agreements so that the impact of staff departures on lease management will be minimized in the future.*

*The procedures to reconcile received goods against ministry purchase orders and vendor shipping documents will be strengthened to better support the signing of Certificates of Acceptance.*

## **MANAGEMENT OF INFORMATION TECHNOLOGY ASSETS**

Management Board of Cabinet Directives require that appropriate systems be established and maintained to ensure the effective management and security of government assets, including the periodic physical verification of these assets. The majority of the Ministry's computer hardware is leased for a five-year term beginning January 1997 for a total cost of \$28 million. Under the terms of the lease, the Ministry is responsible for any lost or stolen equipment.



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We reviewed the Ministry's management of information technology assets and concluded that the controls were not in place to account for and safeguard these assets. The following are some of our observations:

- The Ministry provided us with an itemized listing of leased and owned information technology assets, and we physically verified a sample of assets at a number of locations. We found a substantial number of assets that were either observed at the location but not recorded on the listing, or recorded on the listing but could not be located. We also noted that the listing was usually not updated to reflect equipment reassigned.
- There were approximately 2,400 computer processors and laptops recorded on the Ministry's inventory listing. However, although the Ministry did not know how many computers had been leased, management estimated that the correct number should be around 3,500.
- The Ministry had delegated to local managers the responsibility for maintaining an inventory of their assets including computer equipment. However, we found that the asset control function was a low priority for most managers even though they were responsible for asset management. The Ministry also did not have procedures in place to ensure that local managers performed a periodic physical verification of assets.

### **Recommendation**

**To properly control and safeguard computer equipment, the Ministry should:**

- **complete and maintain a current inventory list that includes all leased equipment;**
- **establish controls to track the movement of computer equipment; and**
- **implement mandatory periodic asset inventory counts and follow up any discrepancies to ensure the accuracy of the asset inventory listing.**

### **Ministry Response**

*The Ministry will implement the recommendations in this audit. We are finalizing a province-wide inventory of information technology assets and will reconcile this inventory with local work plans. The Ministry will also develop policies and guidelines to strengthen local management accountability for information technology assets. This will include periodic reviews to ensure the currency and accuracy of the inventory.*

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## MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES

# Office of the Fire Marshal

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3.11

The Office of the Fire Marshal (OFM) is part of the Public Safety Division of the Ministry of the Solicitor General and Correctional Services. Its primary function is to minimize the loss of life and property from fire by helping municipalities and fire departments improve their fire protection and prevention services.

The *Fire Protection and Prevention Act*, which came into force in October 1997, consolidated seven fire-safety-related statutes and established a new framework for the delivery of fire protection services.

Under the previous legislation, most municipal governments arranged for fire protection through local fire departments that operated independently of the OFM. Under the new Act, municipal governments must provide fire protection services in accordance with their needs and circumstances. As a minimum, public education on fire safety and certain components of fire prevention are required.

The Act makes it the responsibility of municipalities to assess community fire risks and provide fire protection services to address local needs and circumstances. Municipalities fund fire protection services and, as a result, they are responsible for establishing programs and setting outcomes. They are also responsible for policy decisions regarding the delivery of these services and the evaluation of the effectiveness of their programs.

The Act provides the Fire Marshal with the authority to monitor, review and advise municipalities respecting their provision of fire protection services and to make recommendations to municipal councils for improving the efficiency and effectiveness of those services. In addition, the Fire Marshal has responsibility for identifying municipalities where a serious threat to public safety exists. When a municipality fails to adhere to the recommendations made by the Fire Marshal to remedy or reduce a threat to public safety, the Minister may recommend to the Lieutenant Governor in Council that a regulation for corrective action be made.

As a result of the new roles and responsibilities that were mandated to the Fire Marshal under the Act, the OFM was in a period of restructuring in order to meet its mandate for monitoring and addressing serious threats to public safety. These changes included establishing systems and procedures for reviewing whether municipalities fulfil their mandated responsibilities, developing fire protection guidelines, conducting extensive fire evaluations and providing guidance, advice and assistance to municipalities on changes resulting from the new Act.

Through its administration of fire safety legislation, the OFM supports municipalities and fire departments with a variety of advisory, investigation, training and instructional programs. It also

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conducts research and advises the Ontario government on standards and legislation relating to fire protection and fire prevention.

For the 1997/98 fiscal year, program expenditures were \$23 million, of which 70% was for staffing. The OFM had 220 staff as of March 31, 1998.

## OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether the Ministry had satisfactory systems and procedures in place to:

- measure and report on the effectiveness of the OFM's and municipal efforts to minimize the loss of life and property from fire; and
- promote compliance with fire safety legislation and efficient and effective municipal fire services.

Our audit was conducted in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our audit included interviews, review of relevant documents and tests at the OFM's head office in Toronto, three of its five regional offices and the Ontario Fire College in Gravenhurst. We also held interviews with several fire chiefs. Our audit was essentially completed in March 1998.

Over the past year, the OFM has been re-evaluating its programs and organizational structure to meet its new mandate under the Act and has implemented several changes as a result. We considered the impact of these recent and planned changes where appropriate in conducting our audit.

We did not rely on the work of the Ministry's internal auditors since they had not recently issued any reports specifically related to the OFM which would have allowed us to reduce the extent of our work.

## OVERALL AUDIT CONCLUSIONS

The Office of the Fire Marshal was in the process of positioning itself to address its new mandate and responsibilities under the *Fire Protection and Prevention Act* which came into force in October 1997. Because the change is recent, the OFM has yet to completely develop satisfactory systems and procedures to measure and report on the effectiveness of provincial and municipal efforts to minimize the loss of life and property from fire.

The stated measures, which compared rates of accidental fires and fire deaths for current and previous years, though significant, were not sufficiently comprehensive to assess the effectiveness of municipal fire services or OFM programs. Improving those measures and comparing Ontario's fire losses and expenditures with those of other jurisdictions would allow

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for better assessment of the overall effectiveness of the myriad of fire protection and prevention programs provided by municipalities and the OFM .

Although, on an overall basis, OFM had satisfactory systems and procedures in place to promote compliance with fire safety legislation and efficient and effective municipal fire services, the following areas required improvement.

- The *Ontario Fire Code (Fire Code)* is a regulation under the *Fire Protection and Prevention Act* that sets out minimum fire safety standards for existing buildings, with the exception of hotels, which are covered by the *Hotel Fire Safety Act*. *Fire Code* or, where applicable, *Hotel Fire Safety Act* violations were identified in over 40% of fire safety inspections. More effort and new measures, including stringent enforcement and education, were needed to promote compliance by property owners with fire safety legislation.
- Systems were inadequate for assessing the extent, results and effectiveness of OFM and municipal inspection activities in order to identify common fire safety deficiencies and to ensure that higher risk properties are maintained at an acceptable fire safety standard.
- To eliminate an inefficient situation, the OFM should expedite the transfer of its responsibility for inspecting 2,200 hotels, nursing homes and homes for the aged to the municipalities.
- The OFM's efforts to improve municipal fire services and identify serious threats to public safety would be more timely and complete if the OFM better promoted the need for municipalities to periodically prepare master fire plans for its review.
- Statistics on fire losses would be more timely, relevant and efficiently maintained by improving electronic database systems and enforcing reporting requirements for fire departments. The extent to which fire setters were intoxicated had not been adequately established as a reporting requirement and, therefore, no significant awareness programs had been established to address intoxication as a fire safety issue.

## DETAILED AUDIT OBSERVATIONS

### MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

In our last audit in 1993, we determined that the OFM had only limited effectiveness measures and no system in place for monitoring and reporting on overall program effectiveness. The Ministry agreed to implement our recommendation to develop and use clearly defined program effectiveness measures in order to determine and report on goal achievement.

The *Fire Protection and Prevention Act* provides significant opportunities for the OFM and municipalities to improve Ontario's fire safety record and the effectiveness of its fire services. Benefits resulting from these opportunities would be best demonstrated using appropriate effectiveness measures.

For the 1997/98 fiscal year, the Ministry stated that its key performance measures were to reduce, or at least not to exceed, the average annual number of accidental fires which, based



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on statistics from the previous five years, was approximately 20,000 fires resulting in 115 deaths.

In our opinion, the stated performance measures, although significant, were too limited to sufficiently demonstrate the effectiveness of fire safety programs. For example, injuries and property losses due to fire were not reported. It would also be useful to set targets for specific regions in Ontario so that program priorities could be better identified for regions with higher fire losses.

In addition, comparisons of Ontario's fire losses could be made with those of other jurisdictions in cases where such data are available. Such comparisons could be used to benchmark expectations for fire safety programs and to identify fire causality factors and effective programs used in other jurisdictions. For example, in 1996, the OFM made an ad hoc comparison of Ontario's average fire death rates between 1989 to 1991 with those of 19 other industrialized countries and determined that 13 countries had better performances than Ontario. Also, for 1995 four provinces in Canada had a lower fire death rate than Ontario.

The OFM places a high priority on public education, fire prevention, and firefighter safety and training, and considers these priorities inextricably linked with its ultimate goal of minimizing losses related to fire. However, the percentage of fires that were preventable through inspection and education was not measured and reported. The effectiveness of fire suppression on property loss from fire had not been determined. The extent of property owner compliance with fire safety legislation could also be reported using results from inspection activities and fire investigations.

In addition, performance measures and outcomes need to be established to measure the effectiveness of the OFM's promotion of efficient and effective fire services in Ontario and identification of municipalities where a serious threat to public safety exists; both of these responsibilities were mandated to the Fire Marshal by the new *Fire Protection and Prevention Act*.

### **Recommendation**

**In order to generate accurate and appropriate information for decision making and to minimize the loss of life and property from fire, the Ministry should improve the measurement and reporting of the effectiveness of the Office of the Fire Marshal's and municipalities' programs and efforts.**

**In addition, the Ministry should develop effectiveness measures for the oversight of municipal fire services recently mandated to the Fire Marshal by the *Fire Protection and Prevention Act*.**

### **Ministry Response**

***The Office of the Fire Marshal agrees with this recommendation.***

***It is important to recognize that an estimated 2,600 lives have been saved since 1981 that would otherwise have been lost to fires in Ontario. This is a result of a number of factors including the enactment of the Ontario***

***Fire Code, improved success with fire safety education and other improvements in fire prevention, including technological improvements.***

***The Office of the Fire Marshal does collect information on injuries and property losses and is prepared to report this information to the Ministry. The Office of the Fire Marshal intends to analyze fire loss information in greater detail to identify problem areas and to develop effective strategies to address them.***

***While the Office of the Fire Marshal is concerned with making definitive comparisons with other jurisdictions considering the variations in fire loss reporting methodology and the level of risk in other provinces, the Office of the Fire Marshal intends to research how comparisons with other jurisdictions may be done.***

***The Office of the Fire Marshal is presently creating a comprehensive database of municipal fire safety indicators (COMPUT) that will enable the Fire Marshal to analyze fire protection information for municipalities, including the identification of potentially serious threats to public fire safety.***

***In addition the establishment of the Fire Evaluation Section will improve data gathering from fire incidents so that the effectiveness of all fire safety activities may be more thoroughly assessed and provide essential information regarding the effectiveness of municipal fire protection services.***

***The Office of the Fire Marshal intends to continue revising its program reporting procedures to improve the measurement and reporting of the effectiveness of the Office of the Fire Marshal programs. The Office of the Fire Marshal will consider what measures should be instituted to report on the Office of the Fire Marshal's promotion of effective and efficient fire services and will report on the incidence of identified serious threats to public safety.***

## **COMPLIANCE WITH FIRE SAFETY LEGISLATION**

The *Fire Code* sets out minimum fire safety standards for existing buildings (with the exception of hotels) according to type of building, including requirements for fire safety plans, storage of hazardous materials and ensuring that building fire safety features and devices are maintained in good working order. As mentioned previously, fire safety standards for hotels are mandated by the *Hotel Fire Safety Act*. Subsequent references in this report to the *Fire Code* should be understood as also including the *Hotel Fire Safety Act* where applicable.

The legislation also provides for enforcement of fire safety standards by the OFM and fire departments, including powers to inspect, prosecute violations, and close buildings or take remedial action if considered necessary under the circumstances.

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Municipal councils are responsible for setting out the general policies and responsibilities of their fire departments, including the levels of service to be provided. Local fire chiefs are responsible for day-to-day operations, including fire prevention activities, such as fire safety inspections to enforce compliance with the *Fire Code*. Fire departments conduct over 200,000 fire safety inspections annually.

At the time of our audit, the OFM was responsible for conducting fire safety inspections of approximately 2,200 hotels, nursing homes and homes for the aged. This responsibility was largely historical in nature, having evolved over time after significant fires occurred, and was not mandated by the *Fire Protection and Prevention Act*.

## PROPERTY OWNER COMPLIANCE WITH FIRE SAFETY LEGISLATION

The *Fire Code* requires property owners to ensure that their premises are in compliance with fire safety standards. We concluded that more effective measures are needed to promote and enforce compliance by property owners with the *Fire Code*.

Where a hazardous fire condition is determined, an inspector may choose either to work with the property owner to obtain voluntary compliance or to prosecute the owner. However, using prosecution to obtain compliance can require substantial time and legal effort.

Notwithstanding that OFM statistics on inspection activities were incomplete or inaccurate (as discussed later in this report), we estimated, using available statistics, that over 40% of premises inspected were not in compliance with *Fire Code* requirements on first inspection. We also estimated that prosecutions were not used for enforcement by over 55% of fire departments we sampled. Prosecutions can encourage compliance with the *Fire Code*.

The OFM has recently initiated more stringent enforcement actions for its inspection activities.

- During 1997, the OFM conducted internal reviews of its inspection activities and found significant shortcomings, such as *Fire Code* deficiencies not being identified or overlooked by inspectors, overdue inspections and unauthorized time extensions provided to property owners to correct deficiencies. During our audit, corrective measures were being implemented to establish higher expectations and monitoring for due diligence by inspectors.
- For 1997, the OFM laid charges against 18 establishments. By the end of March 31, 1998, eight had been successfully prosecuted resulting in \$5,450 in fines collected. We were advised that enforcement in 1996 was minimal; however, no statistics were available.
- In March 1998, a directive was issued to inspectors instructing them to implement existing operating procedures for immediate prosecution for violations of a serious nature (such as locked exit doors and non-operational fire alarm systems) and for violations that were noted on previous inspection.

In addition, the OFM was in the process of reviewing the management systems for its inspection activity to improve reporting and monitoring.

Our discussions with OFM staff and fire chiefs indicated general agreement that more effort and new measures were needed to promote compliance by property owners with *Fire Code* requirements. Options discussed included: providing inspectors with power to issue summary convictions (tickets) for certain violations to streamline prosecutions; allowing municipalities



to retain revenues from fines to allow recovery of their costs; more vigilant enforcement by inspectors; and charging property owners for inspections. In addition, more education is needed to promote compliance by property owners with their legal obligations and to increase fire safety awareness and expectations by occupants.

### **Recommendation**

To improve compliance with fire safety legislation by property owners, the Office of the Fire Marshal should examine, in conjunction with other stakeholders, existing and new options for enforcement of the *Ontario Fire Code* and for education of property owners regarding their responsibility for fire safety.

### **Ministry Response**

*The Office of the Fire Marshal agrees with this recommendation.*

*The estimated non-compliance rate of 40% noted in the report is cause for concern. The Office of the Fire Marshal is in the process of improving its enforcement of fire safety regulations in properties inspected by the Office of the Fire Marshal and will continue to promote more effective Fire Code compliance and enforcement by the municipal fire service through courses at the Ontario Fire College, at regional seminars and through the distribution of guidelines. The Office of the Fire Marshal will work with its stakeholders to improve the rate of compliance and will explore means of improving compliance monitoring.*

*The government is undertaking a number of initiatives to improve enforcement and Fire Code compliance including providing municipal inspectors with the ability to issue Provincial Offences Act tickets for specific Fire Code violations. The Office of the Fire Marshal is encouraging municipalities to use frontline firefighters to improve the delivery of inspection and fire safety education in their communities, developing programs to educate property owners of their legal responsibilities for fire safety and educating the judiciary and Crown attorneys to improve support for prosecution efforts. Reduced tolerance of Fire Code violations, effective enforcement and active education of property owners should result in improvements in the rate of compliance.*

## **INFORMATION ON INSPECTION ACTIVITIES**

Our review of management reports prepared on OFM's inspection activities determined them to be unreliable because they were incomplete and inaccurate. In addition, the reports were not in a format that appropriately identified levels of compliance on re-inspections.



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Deficiencies identified during inspections were not further assessed in order to focus future inspection activities on common deficiencies or to identify common deficiencies for further research and educational programs.

The OFM was in the process of reviewing the management systems for its inspection activities.

Most municipal inspection activity is driven by complaints, requests, and licensing requirements. Many fire departments have also initiated proactive inspection programs aimed at certain types of buildings. As a result, local discretion for fire prevention programs has created significant differences in levels of municipal fire safety inspection activities throughout the province.

The OFM's information on municipal inspection activities was too limited to determine the extent or results of municipal efforts. Although the OFM conducted an annual fire department survey of the number and general types of properties inspected as well as enforcement activity, that information was often not provided or incomplete. Information on common fire safety deficiencies was not requested.

We identified several areas where information on municipal inspection activities required improvement.

- Many municipalities have large manufacturing and processing industries, for example, chemical and oil refineries and storage, pulp and paper processing, and mining, that could pose significant fire safety risks if standards are not adequately maintained. Also, if fire safety standards are not maintained in residential institutions and large assembly buildings, the risk of fire casualties increases. The OFM did not have adequate information as to whether fire departments had appropriate systems and procedures in place to ensure that high risk properties were maintained at an acceptable fire safety standard.
- Although responsibility for fire safety in more than 900 hotels, nursing homes and homes for the aged which were previously inspected by the OFM had been transferred to municipalities over the last five years, there was no requirement for municipalities to periodically report to the OFM on the extent to which they had continued regular fire safety inspections. In our opinion, it would have been prudent for the OFM to ensure that inspections were continued for these properties due to the vulnerability of the occupants.
- During 1996, approximately half of all fire deaths occurred in buildings without a functioning smoke alarm. Recent *Fire Code* amendments require working smoke detectors in all residences, although many municipalities have had bylaws and education campaigns in place for many years to promote smoke detectors in homes. About one half of the municipalities we visited conducted inspections of residential premises, which is where the majority of fire deaths occur. We believe it would be useful to assess the effectiveness of residential inspection programs in reducing fire deaths and casualties.

## Recommendation

In order to generate accurate and appropriate information for decision making to minimize the loss of life and property from fire, the Office of the Fire Marshal should improve the quality of its information on fire safety inspections. It should then use the information obtained to help ensure that:

- higher risk properties are maintained at an acceptable fire safety standard;
- common fire safety deficiencies are identified to better focus preventive efforts; and
- best practices are identified and shared with other municipalities.

## Ministry Response

*The Office of the Fire Marshal agrees with this recommendation.*

*The Office of the Fire Marshal intends to provide additional guidance to municipalities to assess high risk properties and establish regular inspection programs or other programs to address these properties. The Office of the Fire Marshal intends to emphasize risk assessment and help municipalities identify the risks in their communities. Also, the survey of municipal fire departments will be amended to include information on risk assessment strategies and inspection targeting.*

*The Office of the Fire Marshal intends to re-evaluate the process for monitoring the inspection activities of fire departments that have accepted responsibility for Office of the Fire Marshal inspections to determine if adequate measures are in place to ensure an acceptable level of fire safety for the occupants.*

*The Office of the Fire Marshal will seek and analyze information from its stakeholders and its own data sources to identify common violations and the most effective inspection practices so that effective strategies can be developed and promoted to the fire service to improve compliance. In addition the Office of the Fire Marshal will continue to use opportunities such as seminars and conferences, Communique [a newsletter], the Ontario Fire Service Messenger magazine, the Office of the Fire Marshal website and the Municipal Fire Protection Guidelines to promote effective fire inspection and Fire Code enforcement practices.*

## INSPECTIONS CONDUCTED BY THE OFM

Over the last five years, the OFM has been actively pursuing the transfer of its inspection activities to those municipalities willing to accept the responsibility. So far, responsibility for fire protection services for more than 900 hotels, nursing homes and homes for the aged, representing about 30% of the OFM's original inspection activity for these properties, has been

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transferred to more than 110 municipalities. We were advised that the OFM considers this activity to be a municipal responsibility and plans to continue its efforts to transfer the remaining inspection activities to municipalities on a voluntary basis.

The new Act requires municipalities to be responsible for direct delivery of fire protection and prevention services. Thus, fire prevention activities, including fire safety inspections, are a municipal responsibility, provided that municipalities have the capacity to undertake them.

At the time of our audit, a large majority of the remaining 2,200 properties that the OFM was inspecting were in large municipalities. This situation is inefficient since OFM inspects properties within areas already covered by fire department and *Ontario Building Code* inspectors.

We were advised that, despite the significant number of inspections already conducted by fire departments, many were unwilling to voluntarily assume OFM's inspection activities due to recent financial constraints. This situation has resulted in an inconsistency that benefits uncooperative municipalities.

### **Recommendation**

**In order to eliminate inefficiencies and to ensure that responsibilities under the *Fire Protection and Prevention Act* are clearly delineated, the Office of the Fire Marshal should expedite the transfer of responsibility for its remaining inspection activities to municipalities.**

### ***Ministry Response***

***The Office of the Fire Marshal agrees with this recommendation.***

***The Office of the Fire Marshal has developed a plan for the transfer of inspections to municipalities and intends to expedite implementation of this plan. This plan will be implemented after Regulations to the Hotel Fire Safety Act are incorporated by reference into the Ontario Fire Code on July 31, 1998.***

## **MONITORING OF MUNICIPAL FIRE SERVICES**

There are approximately 640 municipal fire departments in Ontario with total expenditures estimated at over \$650 million. These departments are staffed by over 9,000 full-time and 17,000 part-time and volunteer firefighters. In addition, there are approximately 90 fire departments under the Northern Fire Protection Program.

The OFM gathers information on municipal fire services from a variety of sources, including its annual fire department survey, fire loss reports submitted by fire departments, and informally through contacts made by OFM's field services staff.

The OFM had introduced several measures to improve its monitoring and support of municipal fire protection services. These included issuing guidelines to municipalities and developing a



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Comprehensive Fire Prevention Effectiveness Model to help them make informed assessments of their fire prevention and protection services.

The OFM had also initiated a project, named COMPUT, which, when completed, is intended to produce fire safety profiles of each municipality based on information obtained from fire loss records, the 1996 annual fire department survey and other information on municipalities. The fire safety profiles are intended to help identify municipal characteristics that result in high and low fire risk and establish benchmarks that municipalities can use to compare their fire prevention and protection services with those of other similar communities.

## MASTER FIRE PLANS

Awareness of community fire risks and appropriate fire protection and prevention measures requires a sound knowledge of community characteristics. National standards for fire departments, recent OFM guidelines and the Comprehensive Fire Prevention Effectiveness Model all stress the need for fire departments to research and identify all possible community fire risks along with their potential impacts.

National standards and OFM guidelines also recommend that municipalities, in conjunction with their fire departments, prepare master fire plans as strategic management tools for evaluating existing and potential fire risks and their potential impacts as well as identifying options for providing desired levels of fire protection.

The large number and diversity of municipal fire risks, potential impacts and fire department capabilities create a significant challenge for OFM oversight responsibilities. Encouraging all municipalities to prepare a master fire plan would help both the OFM and the municipalities identify areas for improving fire prevention and protection services as well as any serious threats to public safety. The OFM could review these plans to ensure that they were prepared to an acceptable standard, such that fire risks were identified, evaluated and appropriately minimized. The extent to which fire prevention activities were appropriate to a community could also be addressed during OFM's review of the plan.

However, at the time of our audit, the OFM did not know how many communities had up-to-date master fire plans and had not requested that information in its annual survey. Our interviews of six municipal fire chiefs determined that none of the six had a recent master fire plan.

Recognizing the importance of master fire plans, the OFM had recently prepared similar plans for the over 100 unorganized communities receiving assistance through the Ministry's Northern Fire Protection Program.

### Recommendation

**The Office of the Fire Marshal should more actively encourage and promote the need for municipalities, in conjunction with their fire departments, to periodically prepare master fire plans and should review those plans to help ensure that they provide timely and relevant information for assessing the adequacy of municipal fire services and fire prevention activities. These reviews could also be used to help determine the existence of any serious threats to public safety as well as situations requiring corrective actions.**



### **Ministry Response**

***The Office of the Fire Marshal agrees with the recommendation. Implementation, however, faces some challenges.***

***Master fire plans for all municipalities would be an asset in evaluating fire safety, including serious threat issues, and in achieving effective municipal fire service delivery. However, the Office of the Fire Marshal is concerned that master fire planning, along with other recent pressures, may place an onerous burden on the volunteer fire service.***

***The review by the Office of the Fire Marshal of all master fire plans would place a burden on the Office of the Fire Marshal that it is not capable of meeting with present resources. The Office of the Fire Marshal believes that continuing to encourage master fire planning activities and providing support will enable many municipalities to create master fire plans and make planning an integral part of their departments' management strategies.***

***The Office of the Fire Marshal intends to make the development of a guideline for master fire plans a high priority. Also, the Office of the Fire Marshal is giving consideration to developing a master fire planning course at the Fire College. The Office of the Fire Marshal will monitor the number of fire departments that have developed master fire plans and will evaluate the effectiveness of this approach.***

## **ANNUAL SURVEY**

Under the Act, it is the duty of the Fire Marshal to develop and maintain statistical records and conduct studies in respect of fire protection services. The Act requires fire chiefs to report to the Fire Marshal any matters related to fire protection services as may be specified by the Fire Marshal. In addition, the Minister may make a regulation requiring any person to furnish such statistical and other information to the Fire Marshal as he or she considers necessary.

The annual fire department survey requests information on inspection and enforcement activities, public education and fire suppression capabilities. The 1996 survey also requested information on building stock, population and municipal funding for use in the COMPUT project. The 1996 survey was sent to over 700 fire departments and communities with a request to respond by October 10, 1997.

The OFM has typically received a low rate of response to its annual surveys. For the 1996 survey, only 15% of fire departments and communities responded by the due date. Additional effort using OFM's field services staff was necessary to improve the response rate. As of mid-March 1998, the response rate had increased only to 35% and included most large fire departments.

### Recommendation

The Office of the Fire Marshal should remind municipalities and their fire departments of their duty under the *Fire Protection and Prevention Act* to provide timely information on the fire protection and prevention services in their communities, or, alternatively, the Ministry should consider a regulation to more specifically mandate responses to the Office of the Fire Marshal's annual survey.

### Ministry Response

*This recommendation is consistent with the intentions of the Office of the Fire Marshal. The Office of the Fire Marshal will use its communication vehicles, including Communiqué and the Ontario Fire Service Messenger, to remind municipalities of their duty and to encourage thorough responses to municipal fire service surveys.*

*The Office of the Fire Marshal recognizes the need for a high response rate on surveys. However, mandating fire departments to respond may not be the most effective method of ensuring timely and accurate responses. The Office of the Fire Marshal needs to be sensitive to the impact of additional administrative demands on the volunteer fire service. The Office of the Fire Marshal is exploring increased involvement by field staff and the use of electronic data transfer to improve the response rate and accuracy of surveys from the fire service.*

## FIRE DEPARTMENT REPORTING PRACTICES

Our interviews with fire chiefs and OFM staff indicated that reporting by fire chiefs to their local municipal councils was generally limited to occurrence reporting and financial matters. A few fire chiefs also reported some performance measures to demonstrate their efficiency and effectiveness, usually in an annual report. For example, response times to fire scenes, per capita fire department costs, and per capita fire casualties and losses were noted.

More consistent and appropriate performance measures for local fire services would put the OFM, municipal councils and fire chiefs in a better position to evaluate the efficiency and effectiveness of local fire services. The annual survey could be used to obtain this information for sharing with municipalities.

### Recommendation

To facilitate the monitoring of municipal fire services by the Office of the Fire Marshal, municipal councils and fire chiefs, the Fire Marshal should take measures to assist local fire departments to improve their performance measuring, benchmarking capabilities and reporting practices.

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### **Ministry Response**

***The Office of the Fire Marshal intends to continue to develop the COMPUT database, the Comprehensive Fire Safety Effectiveness Model and the Municipal Fire Protection Guidelines to improve performance measuring and benchmarking capabilities. The Office of the Fire Marshal will work with stakeholders to explore means of improving fire service reporting practices. The Office of the Fire Marshal plans to identify and promote the best practices and will develop guidelines and management training programs to assist municipalities and the fire services to this end.***

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## **IDENTIFYING FIRE SAFETY CONCERNS**

Fire investigations are essential to combat arson and to identify fire safety issues for improving legislation, fire safety protection and prevention activities, and public education programs.

Under the Act, the cause, origin and circumstances of any fire or explosion must be investigated, and records must be kept of every fire reported. Of the approximately 25,000 fires that occur annually, the OFM investigates approximately 1,100. Fires that meet OFM's criteria for investigation include all fatal fires, gaseous explosions, suspected arson, large fires and fires that result in widespread public concern. Fire departments are expected to investigate the remaining fires and are required under the Act to report all fires to the OFM using a standardized reporting format.

In addition, fire safety concerns may be identified by fire service associations, coroner's inquests, building officials, feedback received from the general public and issues being identified through the OFM's research mandate.

## **FIRE INVESTIGATIONS**

In February 1997, the OFM initiated a five-year plan to enhance fire investigations. The plan included: more comprehensive investigations by OFM investigators for certain fires to evaluate building fire suppression systems, fire department performance and human behaviour during fires; certifying all OFM fire investigators; and improving the capacity of fire departments to investigate fires to ensure that all fires not required to be investigated by the OFM are adequately investigated. During our audit, the OFM was in the process of implementing this plan.

Internal policies for OFM fire investigators require that a preliminary report be submitted within five days after attending the fire scene. Investigators must also review each outstanding investigation at least once every three months to monitor progress regarding any outstanding matters such as obtaining forensic results. When all such matters have been followed up, the investigator completes a final report to close the investigation.

An internal review conducted by the OFM in October 1997 determined that several investigators had significant backlogs of uncompleted investigations. Efforts were underway during our audit to eliminate the backlog and introduce new reporting procedures to better monitor progress on investigations.



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## FIRE LOSS REPORTING

In addition to reporting fires, fire departments are required to report to the OFM all other emergency responses, such as false alarms, rescues and medical calls. As a result, over 285,000 reports are received each year.

Several areas were identified for improving fire loss reporting.

- Two separate database systems were in place for fires investigated by OFM investigators and for fire loss reports received from fire departments; each system used different reporting codes and separate administrative staff. Duplications and inefficiencies have resulted.
- Previous legislation required fire departments to report fires within three days of being notified of an occurrence. Recent changes to the Act did not include a reporting deadline. Inadequate systems were in place to monitor timely reporting by fire departments. For example, three large fire departments did not submit fire loss reports for 1996 until at least February 1998. We were advised that outstanding reports for the 1997 year could not be easily determined. For 1995 reports, the most recent complete year for the database, no written follow-up was made to the approximately 40 fire departments that had not submitted reports to confirm that they had not had any fire occurrences.
- Approximately 27 fire departments send reports to the OFM in electronic format, which represents about a third of all reports. The more than 700 remaining fire departments, including some from large municipalities, submit paper reports requiring OFM staff to manually enter information into the database.

In addition, we noted that fire loss reporting codes and procedures and investigation reporting procedures did not adequately identify the extent of intoxication from alcohol and drugs as a circumstance contributing to the cause of fires and fire casualties. Current reporting requires intoxication to be reported only for victims who die or sustain injuries from fires. Intoxication of a fire setter is not considered a cause of fire. Instead, the action resulting in fire ignition is normally reported as the cause, for example, careless smoking or leaving cooking unattended.

During our interviews, some fire chiefs advised us that alcohol intoxication was a significant factor contributing to fires. Since no statistics were gathered on the extent to which fire setters who did not sustain injuries were intoxicated, the OFM was unable to provide us with this information. However, available statistics do indicate alcohol impairment in approximately 15% of 1995 fire death victims. Nonetheless, we noted that no significant awareness programs had been established to address intoxication as a fire safety issue.

### Recommendation

**To ensure that fire loss reporting is timely, relevant and efficient, the Office of the Fire Marshal should:**

- **work toward having only one comprehensive database for fire loss reporting by fire departments and Office of the Fire Marshal fire investigations;**



- introduce measures to ensure that fire departments submit fire loss reports in a timely manner, preferably using an electronic reporting format;
- ensure that fire departments and Office of the Fire Marshal investigators report the extent to which intoxication by alcohol and drugs was a circumstance contributing to fires.

The Office of the Fire Marshal should also consider whether awareness programs to address intoxication as a fire safety issue are warranted.

### **Ministry Response**

*The Office of the Fire Marshal agrees with the intent of this recommendation.*

*The Office of the Fire Marshal intends to consolidate its electronic databases for fire loss reporting. The newly restructured Applied Research, Monitoring and Data Distribution section has been made responsible for improving fire loss reporting.*

*The Office of the Fire Marshal will work with its municipal fire service stakeholders to pursue means to reduce the delays in fire loss reporting. While the Office of the Fire Marshal will continue to encourage fire departments to submit reports electronically, this must be done with the recognition that the information technology resources of many municipalities are limited and that many will not yet have the necessary capability.*

*The Office of the Fire Marshal is concerned with the impact of alcohol and drug intoxication on fire losses. However, reporting the extent to which alcohol and drug intoxication contributed to fire losses is extremely difficult. Despite the difficulties, the Office of the Fire Marshal is taking action on the issue of intoxication and fire safety. This includes making the fire service aware of the issue through training sessions and by developing and distributing public service announcements. Recently public service announcements regarding the Office of the Fire Marshal's concern with drug and alcohol intoxication and fire safety were sent to 200 media outlets for broadcast to the public. The Office of the Fire Marshal will explore means of evaluating the effectiveness of these education initiatives.*

*The Fire Marshal will also raise this issue with the Fire Marshal's Fire Safety Council and seek its assistance.*

## **OUTSTANDING FIRE SAFETY CONCERNS**

We concluded that the OFM had satisfactory systems and procedures for monitoring various sources for significant fire safety concerns.

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During our audit, the OFM was in the process of seeking implementation of changes, including legislative amendments, for several significant fire safety concerns identified as a result of certain fires over the last few years. For example, recommendations resulting from a coroner's inquest of deaths from a 1995 fire identified the need to improve fire safety standards for residential care facilities with vulnerable occupants. A large fire in 1997 at a recycling and waste handling facility also resulted in the OFM identifying several fire safety concerns for these facilities. In both of these cases, action has been taken to fully or partially address many of the concerns raised, and working groups were established to assess the impact and implementation of recommended changes.

In addition, several fire safety issues pertaining to the operation of airports (such as passenger rescue, the lack of fire fighting of interior aircraft fires, and the adequacy of fire protection at small airports) and nuclear-powered electricity generating stations (such as fire prevention activities) have been publicly identified. Neither of these facilities are generally considered to be within OFM's jurisdiction. However, since municipal firefighters would likely be required to respond to fire and safety related incidences at these facilities, the OFM was in the process of monitoring progress and/or participating in efforts to remedy these concerns.

## OTHER MATTER

Our audit was greatly assisted by several internal assessments made by OFM staff over the last year of its programs and activities to identify areas for improving efficiency. We also made additional suggestions in a letter to management for better managing human and physical resources and for improving internal controls in specific areas. We were provided with satisfactory management responses and action plans to address these suggestions.

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## MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES

# Ontario Provincial Police

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Under the *Police Services Act*, the Ontario Provincial Police (OPP) is responsible for policing areas of Ontario that do not have their own police agencies. The OPP provides general policing services to over 2.3 million people throughout the province (that number increases to 3.6 million in summer due to tourists and cottage users).

In addition to the above general policing responsibilities, the OPP is specifically charged under the Act with patrolling traffic on certain highways, maintaining specialized investigative and enforcement capabilities to assist municipal police agencies, and enforcing liquor and other laws as the Solicitor General may direct in serving provincial interests.

The OPP has over 4,750 uniformed officers, some 770 auxiliary members who provide over 160,000 hours of volunteer services, and over 1,400 civilian employees. It consists of a corporate head office, six regional headquarters, over 80 detachments and 80 satellite locations across the province.

For the 1997/98 fiscal year, total OPP expenditures amounted to \$541 million. Of this total, \$535 million (99%) was for operating expenditures and \$6 million (1%) was for capital expenditures. Operating expenditures were allocated as follows:

	\$ Million
Salaries and benefits	421
Transportation and communication	26
Services	39
Supplies and equipment	42
Transfer payments	7
TOTAL	535

Source: Ontario Provincial Police

## OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether the Ministry of the Solicitor General and Correctional Services had adequate procedures and systems in place with regard to the Ontario Provincial Police to:

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- measure and report on the effectiveness of mandated community-oriented policing and traffic management services in the promotion of public safety; and
  - ensure that policing services were delivered with due regard for economy and efficiency.

We focused our audit on field operations and organizational support activities, which together represented over 90% of OPP expenditures. In particular, because salaries and employee benefits accounted for 80% of OPP operating expenditures, the emphasis of our audit was on the management of human resources in these activities. Prior to the commencement of the audit, we identified audit criteria to address our audit objectives. These criteria were reviewed and accepted in October 1997 by the OPP's two Deputy Commissioners.

Our audit included visits to the OPP general headquarters, four of the six OPP regional headquarters, six detachments and three communication centres within the regions visited. Our audit also included interviews with OPP and ministry officials, examinations of all relevant management reports of the OPP, reviews and analyses of OPP policies and procedures (known as police orders) as well as operational data and statistics relating to OPP operations. We also reviewed and, where warranted, relied on audit work performed on the OPP by the Audit Services Branch of the Ministry of the Attorney General. Our fieldwork was completed in February 1998.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

## OVERALL AUDIT CONCLUSIONS

We noted that, through its 1997/98 business planning process, the Ministry of the Solicitor General and Correctional Services had established a number of specific, measurable corporate goals to assess the effectiveness of the OPP in serving the community. However, to better assess that effectiveness, the OPP needed to:

- fully implement the process it has developed for identifying and prioritizing policing services to meet community service expectations; and evaluate and report on the progress of community policing implementation to ensure that corrective action, if necessary, can be taken on a timely basis; and
- review and, if required, revise the effectiveness measures of its traffic management services. Traffic management outcomes measured should be reasonably attributable to the traffic management efforts of the OPP.

In order to ensure that policing services are delivered with due regard for economy and efficiency, improvements were needed in the following areas:

- Staff deployment—the OPP needed to revise current staff scheduling practices to better align the deployment of hours worked by officers with the service requirements of the communities involved. Our audit indicated significant mismatching of staff hours worked and calls for OPP service on a month-to-month, day-to-day and hour-to-hour basis.



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- Overtime management—the OPP needed to establish better management controls for the assignment and approval of overtime and monitor overtime hours so that timely corrective action can be taken if necessary. Between the 1993/94 and 1996/97 fiscal years, overtime expenditures increased by 140%, from \$12 million to \$29 million, despite a relatively stable level of calls for OPP services during the same period.
  - Billing and collecting policing service revenues from municipalities—the OPP needed to improve cost-identification and work with the Ministry to ensure effective billing and collection of policing service revenues. We noted that of the 40 municipalities with OPP policing service contracts, 5 had not been billed for OPP services for three years as of the end of 1997. The total unbilled services for these municipalities amounted to \$23 million. In addition, five other municipalities had been billed but had not paid for about \$6.6 million of services provided by the OPP since 1993.

## DETAILED AUDIT OBSERVATIONS

### EFFECTIVENESS MEASURES

The OPP's legislated and strategic objectives in providing policing services include the following:

- to reflect community needs and promote the prevention and detection of crime;
- to promote public peace, well-being and security;
- to ensure an appropriate enforcement of law; and
- to prevent accidents and promote traffic management.

The OPP collects and reports various statistics relating to its operations. These include input statistics such as number of frontline officers, management staff, hours worked by frontline officers and number of vehicles employed; output statistics for activities such as calls for service answered, kilometres driven, patrol hours and charges laid; and outcome statistics such as clearance rates (that is, resolving occurrences) for various crimes and road fatality rates.

Through the Ministry's 1997/98 business planning process, a number of specific performance goals were developed to assess the OPP's effectiveness:

- to be among the top 5% of Canadian police forces—municipal, provincial and federal—with the lowest ratio of management staff to front line officers;
- to maintain the OPP among the top 10 Canadian police forces—municipal, provincial, and federal—at clearing violent crime occurrences;
- to keep the Ontario road fatality rate among the lowest 10 such rates in North America; and
- to achieve improved rates of citizen satisfaction with OPP service as well as reduced numbers of public complaints.

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The establishment of the above measurable goals is a positive first step in assessing OPP effectiveness.

Additionally, we noted that recent amendments to the *Police Services Act* would result in the establishment of more police service boards and community policing committees with responsibilities for determining local OPP policing objectives and monitoring and evaluating OPP services. These boards and committees are expected to furnish the OPP with additional mechanisms for setting service expectations within their local communities and to provide greater OPP accountability for policing activities to those communities.

## COMMUNITY POLICING

Since the late 1970s, the philosophy of community policing has been adopted by many police forces throughout North America. Amendments to the *Police Services Act* in 1990 included the requirement for Ontario police forces to provide community-oriented policing services. Various definitions exist with regard to the activities that encompass community-oriented policing. In essence, community-oriented policing focuses on involving communities in identifying and solving law and order issues in their areas.

In its 1995 organizational review document, the OPP outlined its commitment to a full partnership approach to community policing. This approach emphasizes crime prevention and reduction of victimization through working with a wide range of community groups and establishing roles and responsibilities for identifying and solving law and order issues.

In 1996, the OPP developed a strategic plan and initiated various projects for the entrenchment of community policing as the method of delivery for all OPP services.

The OPP has established a process for identifying and prioritizing policing services to solve community problems and meet service expectations. It has also developed measures for monitoring, evaluating and reporting on community policing including: the implementation of the new service delivery model; community satisfaction with services; levels of reported and unreported victimization rates; and community policing successes with community partners.

We noted several examples of effective community policing initiatives for problem-solving and reporting that had been carried out by some detachments. However, we found that the processes and measures described above had yet to be implemented in most of the detachments we visited.

While the OPP has indicated that it is implementing a more integrated community policing approach to service delivery, we noted that approximately eight years have elapsed since community policing was first required by the *Police Services Act*. It has taken the OPP a considerable length of time to develop community policing service delivery processes and related officer training.

### Recommendation

**In order to be more effective in serving the community through community policing activities, the Ontario Provincial Police should:**

- **fully implement the process developed for identifying and prioritizing policing services to meet community service expectations;**

- identify and disseminate best practices in community policing among detachments; and
- measure the effectiveness of community policing activities against established criteria.

The Ontario Provincial Police should also periodically evaluate the progress of community policing implementation, taking corrective action where necessary to ensure that implemented initiatives are effective in helping communities achieve the objectives of reducing crime and victimization.

### ***Ministry Response***

*We agree with the recommendation. Action plans to implement community policing processes, disseminate best practices and measure effectiveness of activities are well under way. In the fall of 1995, the Ontario Provincial Police established the Community Policing Development Centre to focus on the development of a model for community policing with the Ontario Provincial Police and to coordinate, support and monitor implementation. In the spring of the following year, a strategic plan was developed which clearly identified goals and strategies to be implemented over a 42-month timeframe (December, 1999).*

*Accountability to local governing authorities for success in reducing local victimization rates and efficient use of local resources is a distinct part of the Ontario Provincial Police service delivery model.*

*Implementation of the Ontario Provincial Police community policing strategic plan is on schedule and is being monitored at the regional level and by the Community Policing Development Centre to identify issues and determine corrective action where required.*

## **TRAFFIC MANAGEMENT**

The OPP is responsible for patrolling certain provincial highways as well as the roads within the municipalities it polices. The OPP addresses these responsibilities through activities at its regional offices and detachments. At the regional level, teams primarily dedicated to traffic duties and the RIDE (Reduced Impaired Driving Everywhere) program have been established to patrol provincial highways.

Detachments are required to complete a traffic management plan each year outlining local traffic concerns and actions to be taken during the year. Some detachments have also dedicated specific officers to address these local traffic concerns.

The OPP maintains statistics on accidents and fatalities as well as on activities and enforcement for various corporate and regional initiatives such as holiday RIDE programs. The motor vehicle collision data from OPP jurisdictions between 1993 and 1997 are as follows:

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### Motor Vehicle Collision Data

	1993	1994	1995	1996	1997
Fatal Collisions	685	570	545	533	544
Personal Injury Collisions	19,335	18,410	17,313	17,014	16,187
Reportable Damage Collisions	54,552	55,184	52,101	54,469	53,692
<b>TOTAL</b>	<b>74,572</b>	<b>74,164</b>	<b>69,959</b>	<b>72,016</b>	<b>70,423</b>

Source: Ontario Provincial Police data

## EFFECTIVENESS ASSESSMENT

# 3.12

The OPP's 1997/98 corporate business plan identifies a key overall objective for traffic management as keeping the Ontario road fatality rate among the lowest 10 fatality rates in North America. However, we noted that significant refinements would be needed for its use as an effectiveness measure of the OPP's traffic management efforts. Specifically, in our review of road safety information from Ontario and other jurisdictions, we noted that the recent decline in road fatality and personal injury rates in Ontario and across North America could be due to a number of factors not solely related to policing efforts. For example:

- New vehicle safety features introduced in recent years, such as air bags and anti-lock brakes, have contributed much to road safety. In a report to the U.S. Congress in December 1996, the U.S. Department of Transportation indicated that drivers protected by air bags experienced a reduced fatality risk of 31% in frontal crashes.
- Better compliance with seat belt legislation has been another factor in reducing road fatalities. The Ministry of Transportation estimated that the use of seat belts has saved about 5,000 lives in Ontario over the last 20 years. According to Transport Canada, the percentage of drivers wearing seat belts in Canada has increased from 86% in 1992 to 92% in 1996.
- The 1994 introduction of the graduated licensing system in Ontario has resulted in a reduction of road fatalities, especially among young, inexperienced drivers. A 1998 study published by the Ministry of Transportation showed that, under the new licensing system, fatality and injury rates decreased by 24% for new drivers of all age groups; among new drivers between 20 and 24 years old, the collision rate decreased by 42%.
- Changing demographics has also contributed to the reduction in road fatality rates. According to *Ontario's Road Safety Plan*, which was updated by the Ministry of Transportation in 1997, the maturing of baby boomers is expected to result in a decrease in certain types of collisions associated with younger driving populations. Such collisions, including single vehicle collisions, drinking-driving collisions and high-speed collisions, are the most common types of collisions leading to car occupant fatalities.

Our review of accident statistics in North America indicated some positive trends for Ontario, especially for collisions causing fatalities or personal injuries. In particular, our review of 1996 statistics of other jurisdictions indicated that the Ontario fatality rate of 14 deaths per 100,000 registered vehicles was rated seventh lowest among North American states and provinces. Thus, the OPP's overall objective of Ontario being among the 10 jurisdictions with the lowest road fatality rates in North America had been achieved at that point in time.



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However, until the OPP's contribution to reducing road fatality rates can be measured, comparing Ontario's rate to the rates of other North American jurisdictions could be counter-productive. By using such comparisons, OPP traffic management could appear to be successful if the road fatality rate drops for reasons unconnected to OPP efforts. Conversely, successful traffic management efforts could appear to be ineffective if rates fail to decrease due to factors outside of OPP control, such as traffic volume, road conditions and weather.

While fatality rate reduction is a desirable and measurable objective, isolating factors that can be attributed to policing efforts would be more useful in assessing OPP traffic management effectiveness. For example, factors such as non-compliance with seat belt legislation, drinking and driving, and high-speed driving that are commonly linked to fatal collisions can be affected by OPP community education and traffic enforcement efforts. Provincial performance targets, such as increasing the percentage of compliance with seat belt legislation and reducing the percentage of collisions involving drinking and driving, and high-speed driving, would be more relevant in assessing OPP traffic management efforts than simply comparing the Ontario road fatality rate to the rates of other jurisdictions.

### **Recommendation**

**To better evaluate the effectiveness of its traffic management, the Ontario Provincial Police should develop performance targets that can be more directly attributed to its traffic management efforts.**

### **Ministry Response**

*We agree with this recommendation. The 1998/99 Business Plan has already been approved and performance targets have been identified which include the performance target "Ontario's road fatalities be at or below the national fatality rate." We acknowledge that it is very difficult to determine how the Ontario Provincial Police specifically contributes to any reductions, as several factors other than policing may contribute to success in this area.*

*As the Ontario Provincial Police approaches the 1999/2000 business planning cycle, which will commence in the fall of 1998, the Ontario Provincial Police will be committed to identifying performance targets that can be more attributable to its traffic management efforts.*

## **DETACHMENT TRAFFIC MANAGEMENT PLANS**

Our 1993/94 audit of the OPP noted the following points regarding detachment traffic management plans and subsequent reports of plan results:

- Most plans were not based on an in-depth analysis of traffic problems and trends, contrary to the problem-solving approach advocated by management for community policing. Plan objectives were usually stated in terms of service levels or outputs, such as patrol hours and charges laid, or were more general, such as reducing the number of highway accidents.

- Key objectives were not being achieved.

Our current audit of detachment traffic management plans revealed similar situations. In addition, we found that communities being served were sometimes not even consulted or involved in the establishment of traffic management plans and that objectives set in some plans were not monitored or evaluated by senior management to determine whether they were achieved.

### Recommendation

In order to deliver more effective traffic management services, the Ontario Provincial Police should ensure that:

- detachment traffic management plans are based on a comprehensive analysis of traffic problems and are consistent with its expectations for community policing; and
- performance of detachments in identifying and resolving local traffic problems is reported to and monitored by senior management.

### Ministry Response

*The 1999/2000 business planning process will require business plans to be submitted at the detachment level. To ensure that detachment commanders are not tasked with several planning processes, traffic management plans will form part of the detachment business plans. These plans will be reviewed by senior managers and by the communities they serve, either through police services boards or community advisory committees. Formulation of the plans will be based on an analysis of the traffic issues within the communities served and will be completed in consultation with the community.*

## DUE REGARD FOR ECONOMY AND EFFICIENCY

### HUMAN RESOURCES MANAGEMENT

The OPP has over 4,750 uniformed officers and 1,400 civilian employees. Uniformed officers were distributed to the following categories over the last five years:

OPP Uniformed Staff by Category

	1993	1994	1995	1996	1997
Commissioned officer	136	114	109	116	125
Staff sergeant	276	245	235	227	214
Sergeant	744	680	697	794	773
Constable	3,213	3,618	3,678	3,614	3,653
<b>TOTAL</b>	<b>4,369</b>	<b>4,657</b>	<b>4,719</b>	<b>4,751</b>	<b>4,765</b>

Source: Ontario Provincial Police data

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## STAFF DEPLOYMENT

In 1990, the OPP implemented a staff deployment model for determining staffing levels at the detachments. The model implemented was a modified version of one originally developed by a U.S. state's police department. It determines the number of police officers to deploy in a detachment primarily by the number of calls for service, which is considered to be the workload of the detachment, with adjustments to allow for court attendance, training, patrol and administration.

In our review of staffing levels at detachments, we noted that while the statistics for calls for service were used by corporate headquarters to deploy officers to detachments, these statistics were not used by detachments to determine the workload requirements for scheduling those officers. Our audit indicated that a significant mismatching of staffing levels and workload requirements occurred on a month-to-month, day-to-day and hour-to-hour basis.

### Deployment by Month

The OPP provides general policing services to 2.3 million people throughout Ontario. However, in June, July and August, its services extend to 3.6 million people due to the influx of tourists and cottage users.

The table below is a summary of the monthly calls for service statistics and the corresponding hours worked by detachment field sergeants and constables in 1996, including overtime hours, according to daily activity reports. Civilian staff, some sergeants at regional headquarters and general headquarters, staff sergeants and other senior officers who are generally involved in administration and support activities are not required to prepare daily activity reports. Thus, the table does not reflect their work.

**Monthly Staff Hours Worked and Calls for Service in 1996**

	Hours Worked	Calls for Service
Jan	520,599	38,754
Feb	491,800	35,572
Mar	488,706	37,960
Apr	496,890	38,707
May	517,864	44,866
Jun	472,496	47,465
Jul	444,543	48,826
Aug	439,405	49,985
Sep	469,406	40,299
Oct	487,090	41,061
Nov	462,405	39,583
Dec	411,795	36,498

*Source: Ontario Provincial Police data*

We noted that, during the months when its services were most needed, the OPP had disproportionately low levels of staff hours worked. For example, in the busy months of June, July and August, the OPP had 30% more calls than in the slow months of January, February and March. However, during these slow months between January and March, 10% more staff hours were worked, including overtime hours, than during the three summer months. During the slowest month, February, 12% more staff hours were worked than during August—the month with the highest number of calls for service in the year.

Our discussions with detachment commanders indicated that most officers take their vacations in the summer months. OPP management indicated that the public was not exposed to undue risk in the summer months; officers were able to respond to all the calls for service in those months. According to management, OPP policy stipulated that “vacation leave shall be granted provided not more than 1/6 of a detachment are absent at one time.”

To cope with the situation of having a significant increase in calls for service and a reduced level of staff, OPP had responded by reducing the hours scheduled for court attendance and training during the summer months.

### Deployment by Day

On a day-to-day basis, our analysis of staff deployment showed that most hours were worked by officers on weekdays when calls for service were low and that the fewest hours were worked on weekends when calls for service were high. For example, in 1996, Saturdays had, on average, 24% more calls for service than Wednesdays; however, Wednesdays had, on average, 53% more staff hours worked.

The following is a summary of hours worked by officers and calls for service during the weekdays and weekends in 1996.

**Daily Staff Hours Worked and Calls for Service in 1996**

	Sun	Mon	Tues	Wed	Thur	Fri	Sat
Hours Worked	582,488	865,536	922,549	958,838	904,272	843,461	625,933
Calls for Service	67,180	66,667	66,502	67,304	68,755	79,840	83,328

*Source: Ontario Provincial Police data*

None of the detachment commanders indicated that the public was being exposed to undue risk due to reduced weekend staffing levels; officers were able to respond to all their calls for service with the resources available.

As training, court attendance and other administrative functions requiring time during business hours certainly necessitate having more officers working during the weekdays, we further analyzed the hours worked on night shifts (between 4 p.m. and midnight) which required no time for training, court appearances or other administrative functions.

Our analysis showed a similar pattern of staffing levels for the night shifts—more hours were worked on week nights when calls for service were low and fewer hours were worked on weekend nights when calls for service were high. Although the Wednesday night shift had one of the lowest levels of calls for service, it was still the shift with most hours worked.



### Staff Hours Worked and Calls for Service Between 4 p.m. and Midnight in 1996

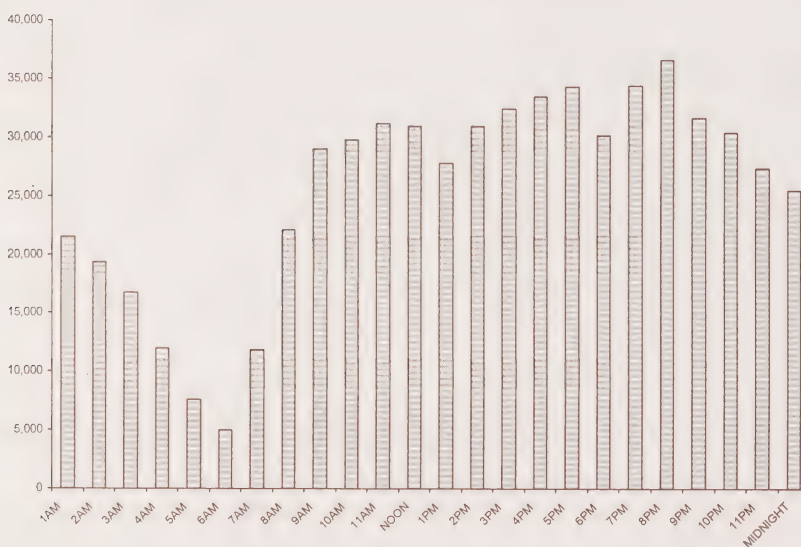
	Sun	Mon	Tues	Wed	Thur	Fri	Sat
Hours Worked	221,417	259,992	270,158	284,334	268,225	263,107	237,337
Calls for Service	24,633	25,933	26,386	26,251	27,630	34,388	32,027

Source: Ontario Provincial Police data

### Deployment by Hour

Our analysis of hourly calls for service showed the following pattern.

Calls for Service by Hour of Day in 1996



Source: Ontario Provincial Police data

Since 1992, the majority of OPP detachments have had officers working on 12-hour shifts. Detachment scheduling of officers is primarily based on maintaining an equal number of officers in a shift at all times of the day. This practice can therefore result in having excess staff assigned to work during the slow hours between 2 a.m. and 6 a.m. There are few calls during that period, and even fewer opportunities for community policing activities.

We noted that some detachments staggered the shifts of some staff around 7 a.m. and 8 a.m. to smooth the transition between shifts. We noted that if such staggering were extended to having more staff over a longer period during busy hours, staff could be more effectively deployed to correspond with workload requirements.

However, we were informed that significant changes in shift scheduling would require agreement from the majority of police officers in the detachments. Additionally, it would

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cause a shortage of police cars because cars assigned to detachments were based on a ratio of three officers to one car. The 3-to-1 ratio was developed when officers were working eight-hour shifts. With officers now working mostly 12-hour shifts, assigning more officers to busy times would result in a shortage of cars, and officers being stationed around detachments instead of being on the road.

### **Recommendation**

**The Ontario Provincial Police should review current staff scheduling practices and revise them as necessary to ensure that officer hours worked are efficiently matched to the service requirements of the communities involved.**

### **Ministry Response**

*We agree with this recommendation. Since January 1998, the Ontario Provincial Police has been working toward the development of a more flexible shift scheduling manual which meets workload and community needs and, to the extent possible, accommodates employee preferences. The manual has been completed and an agreement in principle has been reached.*

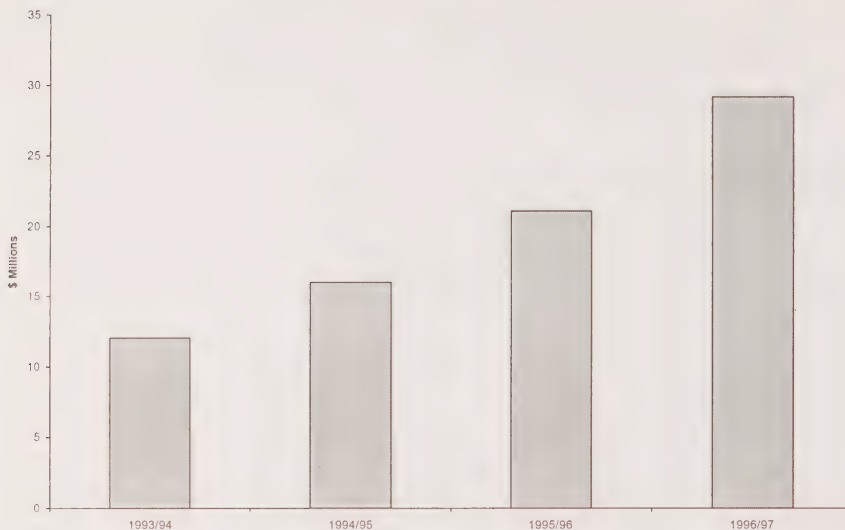
*While an implementation date has not been set, it is expected that the new manual will be in effect in the fall of 1998.*

## **OVERTIME MANAGEMENT**

Our review of OPP overtime showed that despite a stable level of calls for service over the years, the overtime hours worked by officers has steadily increased. Over the last four years, overtime expenditures have increased by 140%, from \$12 million in the 1993/94 fiscal year to about \$29 million in the 1996/97 fiscal year.

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### Overtime Paid



*Source: Ontario Provincial Police data*

Although court attendance was often mentioned as a major cause of overtime, our review of court hours worked by officers indicated that overtime hours for court attendance had declined in recent years and thus did not support the increase in overtime. The inflexibility of scheduling staff in 12-hour shifts and the inefficiency of report writing were also identified by detachment commanders as reasons for significant overtime; however, we noted that these situations had existed for many years and were not the reasons for increases in recent years. Upon further examination of controls and discussions with detachment commanders, we concluded that the significant increase in overtime in recent years was caused mainly by a lack of adequate management and budgetary controls. Specifically:

- Officers assigned to detachments, especially those with specialist training, were often contacted to perform duties by other OPP units directly, with little consideration for the staffing needs of the home detachments. Detachment commanders had no control over the hours worked by their officers outside their detachments; however, overtime hours generated by such outside duties were charged to the home detachments.
- Although Wednesdays have notably fewer calls for service than most other days, they are the days with the most officers working and the most overtime hours being incurred. On average, Wednesdays in 1996 had 60% more overtime hours than Sundays and 42% more than Saturdays.

The OPP has also recognized problems relating to the excessive use of overtime. In September 1997, regional headquarters and detachments were requested to submit plans to reduce overtime expenditures to a target level of \$20 million. In addition, an Overtime Research Project Team was established to investigate the causes of overtime. That team reported similar concerns.

## Recommendation

To promote the appropriate use of overtime, the Ontario Provincial Police should establish better management controls to ensure that overtime hours are:

- worked only on the basis of clearly identified and justifiable need; and
- monitored so that, if necessary, appropriate corrective action can be taken.

## Ministry Response

*We agree with this recommendation. When faced with the increased levels of overtime expenditure, Ontario Provincial Police senior management responded by:*

- *conducting a review of overtime through the Overtime Research Project; and*
- *implementing action plans in 1997 for reduction of overtime expenditures in the 1997/98 fiscal year.*

*All bureaus and regions were required in 1997 to submit action plans to ensure management controls were in place and complied with, with a goal to significantly curtail overtime expenditures. This resulted in significant improvement and a notable reduction of overtime in the latter six months of 1997, which continued into 1998. Overtime in 1997/98 decreased by 24% over the peak period reached in 1996/97.*

*Starting in 1998/99, budget allocations will result in more accountability for overtime expenditures at the local level. For the first time, overtime budgets will be decentralized to the regions and bureaus which will be responsible for managing and monitoring overtime expenditures and ensuring that overtime budgets are met.*

*On May 12, 1998, the overtime research report was submitted to senior management. The report contained several recommendations relating to accountability, overtime attributable to emergency response personnel, court case management and accommodation of employees with disabilities. Action plans have been developed and are being implemented.*

## DIFFERENTIAL RESPONSE UNITS

The OPP differential response units (DRUs) identify those calls for service for which dispatching an officer to the scene would not provide any additional benefit, and address those calls over the telephone. For example, the theft of a bicycle where there are no witnesses and no evidence to be gathered at the scene would likely not require the presence of a police officer. However, as a matter of OPP policy, if a citizen demands to see a police officer, one is dispatched regardless of the nature of the call.



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The OPP developed the DRU program in 1996 to provide a more efficient deployment of police officers. Studies in Canada and the United States suggest that from 30% to 40% of calls for service can best be dealt with by DRUs. In January 1997, the OPP approved the implementation of the DRU program province-wide in June 1997. Regional targets were to be set by the individual regions.

Our visits to detachment and regional offices indicated that the DRU program was not fully utilized because it was understaffed. In addition, its implementation was not being adequately monitored. For example:

- The majority of officers assigned to DRUs were on temporary light duties. As a result, some DRUs had unstaffed positions when these officers returned to their regular duties.
- Our discussion with OPP management indicated that only two regions had established individual targets. For 1997, only one region was able to achieve a greater-than-20% rate for calls being handled by a DRU. The rates achieved in the other regions were approximately 5% or were unknown as they were not being measured.

### **Recommendation**

**In order to realize the potential savings from the differential response units, the Ontario Provincial Police should determine and implement the mechanisms necessary to ensure that the differential response unit program is fully utilized.**

### ***Ministry Response***

***We agree with this recommendation. The Ontario Provincial Police will implement mechanisms to monitor and evaluate the effectiveness of differential response units. The evaluation will ensure that the program is utilized to its fullest; however, the evaluation will be completed within the framework of community consultation and acceptance. The Ontario Provincial Police must serve the needs of the community, and the community will have a significant voice in determining the mandate of local differential response units and the extent to which they should be utilized.***

## **REPORT WRITING**

The OPP uses the Ontario Municipal and Provincial Police Automation Co-operative (OMPPAC) integrated computer system to record reported occurrences, possible suspect sightings and investigation results and to generate its police reports.

In the early 1990s, the OPP made the decision to require officers to enter data and write reports because it planned to eventually install “smart” terminals in police vehicles. We noted in our current audit that none of the vehicles had yet been fitted with such technology, and there were no plans to do so.

In our 1994 report, we recommended that the OPP implement changes to reduce the considerable amount of time that officers needed for data entry and report writing on OMPPAC. Since then, we noted that the OPP has taken several steps to improve this area including:

- adoption by some detachments of generic OMPPAC reporting templates for combining information onto one incident report instead of several; and
- the automatic creation of some case files through the dispatching system to reduce the need for officers to prepare reports.

Despite these initiatives, officers continued to spend a significant amount of time writing reports. The activity report summary from OPP headquarters showed that about 10% of officer working hours were spent for case-related and other administrative reports such as Crown briefs for prosecutors. However, our discussions with detachment commanders indicated that significantly more hours were spent by officers to meet their report writing requirements. For example, officers usually performed their OMPPAC data entry toward the end of their shifts. This administrative responsibility took the officers away from the road to return to their detachments well before their shifts were over. The time spent on travelling and staying in the detachments was not normally recorded as report writing hours.

We noted that some municipal police forces have made use of alternative data entry personnel and current technology to substantially eliminate the need for officer data entry and report writing. At one detachment, the OPP continued the practices of the former local police force in using alternative staff and dictaphone technology to assist officers with OMPPAC reporting. The detachment informed us that the benefits of these practices included:

- significantly reduced officer time spent on report writing in comparison with officers at other detachments; and
- better consistency of report style and format because fewer personnel were involved in data entry and report preparation.

The OPP had neither substantiated nor quantified these benefits. At the end of our field work in February 1998, an OPP project team was studying the benefits that could be achieved by using alternative staff to assist with data entry.

### **Recommendation**

**To reduce time spent by officers on data entry and report writing, the Ontario Provincial Police should explore other options, including new technologies and alternatives to data entry by officers.**

### **Ministry Response**

***We agree with this recommendation. There is currently a study under way which is examining alternatives to officer entry data. A draft report is expected in the summer of 1998.***

***Additionally, the Ontario Municipal and Provincial Police Automation Co-operative integrated computer reporting system will be replaced by***

*the year 2000. A request for proposal has been prepared and a decision is expected soon on the replacement for the Ontario Municipal and Provincial Police Automation Co-operative integrated computer reporting system.*

*Of particular interest with respect to this recommendation is a requirement that the replacement system realize tangible improvements in the area of data entry. One of the expectations of a new computer-aided dispatch records management system is that it allow officers or data entry personnel to enter tombstone data (name, date of birth, address, and so on) once, and then automatically populate that same data into other areas as it is needed.*

*This data rollover capability will assist Ontario Provincial Police personnel with completing numerous types of reports and forms (property reports, impaired driving forms and so on) as well as providing a more efficient method of meeting Canadian Police Information Centre data entry requirements or preparing Crown briefs. Modern word processing tools will provide more versatility to the user who must enter incident information.*

*On-line library tools with point and pick functionality would decrease the current amount of effort required in selecting the correct charge for an offence when completing statutory forms such as subpoenas and other court documents.*

## TRAINING OF OFFICERS

The OPP has a wide range of training programs designed to ensure that officers are trained and equipped with the skills necessary for effective and efficient delivery of police services. These programs include:

- basic and field training for new recruits;
- annual mandatory training courses for officers, such as firearms requalification, personnel safety/use of force and first aid requalification;
- training courses for specialists in breathalyzer use, explosive disposal, crime investigation and emergency response; and
- management training such as courses for detachment commanders on police administration.

Our audit indicated that the OPP had developed course training standards for the above programs to facilitate the monitoring of course design, delivery and evaluation. Course evaluation was done annually to assess the relevance of the courses and to determine whether they should be offered the following year.

In our examination of the training of officers, we concluded that officers were receiving the training and acquiring the skills deemed necessary by the OPP for delivering policing services.

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## PROVINCIAL REVENUES FOR MUNICIPAL POLICING SERVICES

Prior to January 1, 1998, the OPP provided policing services without charge to 576 small municipalities that had not established other means of providing such services. In addition, 40 municipalities had contracted to pay for the services of the OPP. Commencing January 1, 1998, in accordance with the *Police Services Act*, the province was to bill all municipalities without contracts for OPP services for the cost of those services on a basis specifically prescribed by Regulation.

The province does not recover costs from municipalities for activities such as provincial highway patrols that are determined to be in the provincial interest. However, the Act states that municipalities are responsible for providing all of the infrastructure and administration necessary for providing adequate policing services.

The OPP estimated that provincial revenues for municipal policing services will amount to approximately \$216 million for 1998. Of this total, \$178 million would be for cost recoveries from non-contract municipalities and \$38 million for cost recoveries from contract municipalities.

### COST RECOVERY FROM MUNICIPALITIES WITHOUT CONTRACTS

In examining the OPP methodology for determining cost recoveries for non-contract municipal police services for 1998, we noted that the estimated \$178 million in OPP cost recoveries was primarily based on estimated 1997/98 expenditures. However, overhead costs were determined using a cost recovery formula based on an estimate for expenditures for the 1996/97 fiscal year that was less than the actual expenditures for that year.

OPP management indicated that differences between estimated and actual expenditures would be recovered because the OPP would be billing individual municipalities for the actual salaries and benefits of the officers deployed in their communities. In addition, actual amounts of other direct operating costs, with vehicles being the most significant, would be identified and billed to the municipalities. However, we noted that because overhead costs were based on the estimated expenditures, they would be underestimated if the cost recovery formula were not revised.

In addition, the OPP deducted 10% from the amounts otherwise recoverable from municipalities as an adjustment for the use of officers assigned to municipalities to assist in any provincial emergencies. The 10% adjustment was an OPP estimate for which the OPP could not provide us with supporting data. OPP management indicated that the 10% adjustment was a conservative estimate based on discussions with all regional and detachment commanders.

OPP management indicated that it was in the process of adjusting its system to collect more detailed information on costs and hours worked by officers in individual communities. The OPP intends to review the cost recovery formula later in 1998 to ensure that it reflects actual expenditures. Additionally, the OPP will review the 10% adjustment for provincial services to determine the most appropriate method of ensuring that municipalities are not charged for provincially mandated services.



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## REVENUES FROM MUNICIPALITIES WITH CONTRACTS

Municipalities with contracts for OPP services are billed for costs according to the provisions of their contracts. At the end of 1997, 40 municipalities were under contract to be billed, in total, approximately \$40 million annually for services provided by the OPP.

Of those 40 municipalities, we noted that, as of the end of 1997, five (within one regional municipality) had not been billed for OPP services for the past three years. The total unbilled amount was about \$23 million.

In addition to the unbilled amount of \$23 million, the OPP had accounts receivable totalling \$12.6 million for the year ended December 1997. We noted that \$8.4 million had been outstanding for more than 90 days. Of this amount, five municipalities owing about \$6.6 million had not paid for services provided by the OPP since 1993.

### **Recommendation**

**To ensure that the costs of providing its services to municipalities are appropriately recovered, the Ontario Provincial Police should:**

- **ensure that its system is adjusted to collect more detailed information to identify costs for recovery;**
- **work with the Ministry to establish adequate systems and procedures to more effectively bill and collect costs associated with municipal policing services.**

### **Ministry Response**

*We agree with the recommendation and have taken the following action. The Ontario Provincial Police has modified its activity data collection to ensure that detailed cost information is available in a timely fashion.*

*While it is the responsibility of the Ministry of Finance to effect billing and collect the revenue for Municipal Policing Services provided by the Ontario Provincial Police, the Ontario Provincial Police is committed to providing the Ministry of Finance with accurate and timely data.*

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## CHAPTER FOUR

# Follow-up of Recommendations in the 1996 Annual Report

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Since 1993 it has been our practice to make specific recommendations for corrective action by ministries and agencies, and two years after publication of the recommendations in our *Annual Report* to follow up on the status of action taken. This chapter provides some background on the audits comprising the Value for Money Chapter of our *1996 Annual Report* as well as the current status of implementing the recommendations made. We are pleased that in many cases our recommendations have been either fully or substantially implemented. However, in several cases, progress has been slow or is ongoing. In cases where the recommendations have not been implemented, or are still in the process of implementation, a brief description of the current status of action taken by the ministries is provided.

## Ministry Of Agriculture, Food and Rural Affairs: Agriculture Division — 3.01

### BACKGROUND

The purpose of the Ministry's Agriculture Division is to foster competitive agriculture, help maintain the environment and support rural community development. This is accomplished through a network of field offices which provide for the transfer of information and technology to the rural and agricultural communities.

In 1996 we assessed whether resources were managed with due regard for economy and efficiency. We also assessed whether satisfactory procedures were in place for measuring and reporting on the effectiveness of service delivery.

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## CURRENT STATUS OF RECOMMENDATIONS

All of our 1996 recommendations have been substantially implemented by the Ministry. The recommendations related to the following matters:

- Field Office Locations;
- Field Office Staffing;
- Divisional Structure;
- Cost Recovery;
- Field Services Planning; and
- Performance Measurement and Reporting.

## Ministry of Agriculture, Food and Rural Affairs: Education, Research and Laboratory Services — 3.02

### BACKGROUND

The Education, Research and Laboratory Services Program of the Ministry of Agriculture, Food and Rural Affairs provides ongoing support to the agriculture and food industry. This support was provided through the Ministry's two laboratories and three directly operated colleges of agricultural technology and a contractual arrangement with the University of Guelph to provide agricultural research, agricultural diploma programs and funding for the Ontario Veterinary College.

Our 1996 audit assessed whether program resources were managed with due regard for economy and efficiency. We also assessed the adequacy of procedures used to measure and report on the effectiveness of the program.

### CURRENT STATUS OF RECOMMENDATIONS

In April 1997 the Ministry implemented an enhanced partnership with the University of Guelph. This agreement resulted in the transfer of the Ministry's three colleges and two laboratories to the University. The agreement also resulted in the merger of most of the Ministry's research programs with the University's research capabilities. This new agreement is designed to consolidate and streamline operations, place a cap on provincial costs and enhance revenue generating potential.

As a result of the enhanced partnership with the University of Guelph, the Ministry has taken significant action on all of the recommendations made in our 1996 report. Recommendations relating to the following areas have been substantially implemented: Agricultural Colleges;

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Clinical Education; Research Monitoring; Project Development; Research Funding; and Laboratory Revenue.

With respect to our other recommendation, the status of action taken is as follows:

## **PROJECT PROPOSALS**

### **Recommendation**

*To ensure that all research is economically justified, the Ministry should revise the requirements for project proposals to include a cost/benefit analysis of the research and an outline of how the results could be implemented if the research were successful.*

### **Current Status**

The Ministry acquired a computer assisted analysis program to be used as a screening tool for research projects to determine, among other factors, cost/benefit. However, the software has not been able to deliver as expected. The Ministry is continuing to evaluate this software. Project proposals now require researchers to provide, in a narrative form, the benefits expected to be derived from proposed projects, including milestones and technology transfer plans.

# **Ministry of Community and Social Services: Capital Expenditures — 3.03**

## **BACKGROUND**

The capital expenditures of the Ministry of Community and Social Services consist primarily of capital grants to municipalities and transfer payment agencies for the renovation and construction of facilities used in the delivery of ministry programs. Typically, ministry funding accounts for 80% to 100% of a project's total costs. For the 1995/96 fiscal year, expenditures totalled \$16.2 million which increased slightly to \$20 million for the 1997/98 fiscal year.

Our 1996 audit objectives were to assess whether the Ministry's procedures for administering capital grants were adequate to ensure that: projects were funded only when necessary, and in accordance with established priorities; and the reasonableness of the amounts funded was determined.

We found that project documentation was insufficient to determine whether the projects funded were necessary. Project proposals did not identify or assess other alternatives which could have been considered to meet program needs more economically. Improvements were also required to ensure that: lower priority projects from one area were not funded ahead of other, higher priority projects from other areas; agencies did not fund capital projects from surplus or incremental ministry operating funds, thereby bypassing the capital expenditures planning and priority setting process; approval of grants was based on reasonable cost estimates; and the reasonableness of actual costs incurred was assessed.



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Effective April 1, 1998, the administration of capital expenditures was transferred from head office to the Ministry's twelve area offices. However, head office retains responsibility for communicating government and ministry capital expenditure priorities and consolidating area office capital submissions for review, approval and inclusion in the ministry estimates process.

## **CURRENT STATUS OF RECOMMENDATIONS**

The Ministry has taken some action on all of the recommendations made in 1996 and has substantially implemented recommendations relating to the following areas:

- Project Review and Approval;
- Funding by Established Priorities;
- Project Payments; and
- Legal Agreements.

However, with respect to our other recommendation, the status of the action taken is as follows:

### **FUNDING APPROVALS**

#### **Recommendation**

*To ensure and demonstrate that approved funding is reasonable, the Ministry should:*

- *obtain detailed cost estimates for each project and place these on file; and*
- *document its review and assessment of the necessity for, and reasonableness of, the estimated costs to be incurred.*

#### **Current Status**

The Ministry has developed capital expenditure policies dated May 1997 that specify the need to obtain or prepare detailed cost estimates for each project. These cost estimates are to be included in a detailed business case before the proposal is put forward for consideration and approval.

In January 1998, the Ministry's Comprehensive Audit and Investigations Branch conducted a review of a sample of business cases and found that only 25% of the business cases reviewed contained the required detailed cost estimates.

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# Ministry of Community and Social Services: Provincial Allowances and Benefits Program — 3.04

## BACKGROUND

The Provincial Allowances and Benefits program of the Ministry of Community and Social Services (commonly known as Family Benefits or FBA) provided financial assistance for prolonged periods of time primarily to individuals who were in need and were considered permanently unemployable as a result of a physical or mental disability or were support parents with dependent children. The program was administered by the Ministry under the authority of the *Family Benefits Act* and its Regulations. Program expenditures for 1995/96 totalled approximately \$3.4 billion.

Our 1996 audit assessed the adequacy of the Ministry's administrative procedures to ensure that legislative requirements and program policies and procedures were complied with and that the program was delivered with due regard for economy and efficiency.

We found that the Ministry's administrative procedures required significant strengthening to ensure that legislative requirements and program policies and procedures were complied with. We also found that compliance with then-current procedures required improvement to ensure that the program was delivered with due regard for economy and efficiency. As a result, we made a number of recommendations for improvement.

Since the time of our 1996 audit, the Ministry has replaced both the Family Benefits and the General Welfare Assistance (GWA) programs with the Ontario Works program and the Ontario Disability Support Program. To facilitate that transformation, the Ministry has initiated the Business Transformation Project (BTP), the main purpose of which is to develop new business processes and technologies to support the transformation of FBA and GWA into the Ontario Works program and the Ontario Disability Support Program. The BTP is expected to be implemented in the fiscal year 2000/01 and address many of the concerns noted in our 1996 report.

## CURRENT STATUS OF RECOMMENDATIONS

At the time of our follow-up work in early 1998, the Ministry had taken some action on all of the recommendations we made in 1996 and had substantially implemented recommendations relating to the following areas:

- Home Repairs; and
- Subrogation of Outstanding Legal Claims.

With respect to our other recommendations, the status of the actions taken in those areas is detailed below.

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We also noted that the Standing Committee on Public Accounts reviewed the audit observations identified in our 1996 audit of the Provincial Allowances and Benefits program and made two additional recommendations. The status of these recommendations is described in the appropriate sections below.

## **ENHANCED VERIFICATION**

### **Recommendation**

*In order to ensure that only eligible individuals receive assistance and that assistance is in the correct amount, the Ministry should establish adequate procedures to ensure that all local offices complete the enhanced verification process for each file as required by ministry policy.*

### **Current Status**

Training has been provided to income maintenance supervisors on current casefile standards, including requirements for random file reviews and their monitoring. Under the new Business Transformation Project, the Ministry has pilot tested a new eligibility assessment process called the Consolidated Verification Process (CVP). The purpose of this new process is to streamline the current case review process by replacing enhanced verification as well as other processes with one consolidated approach to case review. Province-wide implementation is to be completed by the fall of 1998.

## **MAIL OUT QUESTIONNAIRES**

### **Recommendation**

*In order to help ensure that correct amounts of assistance are paid to eligible recipients, the Ministry should monitor whether its local offices are complying with its requirements by:*

- *having Family Benefits recipients fill out and return, in alternating years, a questionnaire to update their files; and*
- *reviewing and assessing the information received from these questionnaires to determine the continued eligibility of each recipient and the appropriateness of the assistance being paid.*

### **Current Status**

The Ministry's new CVP requires random reviews of files by income maintenance supervisors to ensure that the required information is on file and appropriate action has been taken.

In addition, the CVP requires annual face-to-face interviews with clients. When the process is introduced across the province, it will eliminate the need for mail-out questionnaires.

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## FILE DOCUMENTATION

### Recommendation

*So that only eligible recipients receive Family Benefits and that the amounts of those Family Benefits are appropriate, the Ministry should ensure that all recipient files contain the information necessary to establish eligibility and the appropriate amounts to be paid.*

*Also, in order to reduce program expenditures, the Ministry should ensure that all recipients who are eligible for Canada Pension Plan disability benefits apply for them.*

### Current Status

As noted previously, the CVP will be replacing the enhanced verification process across the province. CVP identifies the process for ensuring that the provincial standards for minimum documentation that must be on each file to establish eligibility and ensure the appropriateness of amounts paid are met.

Part of the CVP process is verifying actual and potential sources of client income, including Canada Pension Plan payments.

In addition, extensive efforts are being made to automate file documentation verification. Information exchange agreements between the Ministry and several governments or agencies have been signed that will assist in automating and facilitating verification.

## BRING FORWARD NOTES

### Recommendation

*In order to ensure that required information missing from recipient files is followed up in a timely manner, the Ministry should remind its staff that:*

- *bring forward notes are to be prepared in all instances where required information is missing; and*
- *outstanding bring forward notes are to be followed up and cleared on a timely basis.*

### Current Status

The CVP includes the requirement for income maintenance supervisors to complete random reviews of files to ensure that required information is on file and appropriate action has been taken.

An internal review of a sample of files at three CVP pilot sites in January 1998 revealed instances of incomplete information in the files. However, many of these files had not been flagged for bring forward action. In addition, in some cases, files had been flagged for bring forward action from between three to six months after the CVP was completed.

We were advised by the Ministry that it continues to improve its automated systems, which will enhance bring forward note capabilities.



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## FILE REVIEW

### Recommendation

*To determine whether caseworkers perform their duties satisfactorily and maintain proper and up-to-date documentation, the Ministry should ensure that income maintenance supervisors review a representative sample of recipients' files for each caseworker and adequately and consistently document these reviews.*

### Current Status

The Ministry has recently implemented a training curriculum, which outlines performance expectations for income maintenance supervisors. One section deals with file reviews and stresses that the purpose of file reviews is to ensure that caseworker decisions are made appropriately and in accordance with legislation and that documentation is on file to support the decisions. As of February 1998, all income maintenance supervisors had been trained. However, according to an internal review at three pilot sites, there was no evidence at two of them that senior area office staff were monitoring the completion of file reviews.

## INFORMATION SHARING

### Recommendation

*The Ministry should complete and implement information-sharing agreements with other benefit providers and jurisdictions at the earliest possible point in time.*

In addition, the Public Accounts Committee acknowledged the work of the Ministry in this area and also urged continuation of the high priority that has been placed on these agreements.

### Current Status

Information sharing agreements have now been signed with the provincial governments of Manitoba, Saskatchewan, Nova Scotia and Alberta; the Ontario ministries of the Solicitor General and Correctional Services, and Transportation; and Citizenship and Immigration Canada and Human Resource Development Canada (for Employment Insurance). The Ministry is currently in the negotiations phase with British Columbia, Prince Edward Island, New Brunswick, Revenue Canada and the Canada Pension Plan.

## SPOUSAL AND CHILD SUPPORT

### Recommendation

*In order to promote compliance with its requirement that sole support parents actively pursue spousal and child support, the Ministry should ensure that caseworkers:*

- *adequately document the factors considered and verified in reaching a decision to waive spousal or child support; and*
- *periodically review their decisions to waive a sole support parent's obligation to seek spousal or child support.*

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## Current Status

The Ministry has provided training to various staff members on the legal aspects of child and family support, including the adequate documentation of waivers. The income maintenance supervisor core training also addresses file documentation requirements in this area including specific references to support waivers and reviews.

For the 1997/98 fiscal year, area offices were to submit reports to the Director of the Social Assistance Programs Branch addressing issues such as compliance with procedural guidelines for support waivers and documentation requirements. We were advised that, as of July 1998, all area offices had submitted the required reports. A summary report is to be released by the fall of 1998.

## OVERPAYMENTS

### Recommendation

*The Ministry should improve its efforts to recover overpayments by ensuring that:*

- *caseworkers adequately document in the recipient's file both the reason for the overpayment and the calculation of its amount; and*
- *overpayments for which no repayment agreement has been reached or for which a payment is more than 60 days overdue are transferred to Central Collection Services on a timely basis.*

### Current Status

The Ministry had recently developed a directive for overpayments for the Ontario Disability Support Program, effective June 1, 1998. This directive states that overpayments must be calculated accurately, fully documented and recorded on file.

During the 1996/97 estimates process, the Ministry stated that it would privatize overpayment receivables for cases that have left the FBA program. However, the request for proposal pertaining to the ministry overpayment accounts was on hold pending decisions on the "Reasonable Efforts" issue. The release date of the request for proposal is unknown at this time.

## FRAUD PREVENTION AND DETECTION

### Recommendation

*The Ministry should be more pro-active in identifying cases at high risk of fraud and should investigate such cases before specific suspicious concerns are reported.*

### Current Status

The Ministry has increased the number of information sharing agreements that have been signed and implemented, to assist in verification of information provided by recipients. In addition, the Ministry's pilot project work on the Consolidated Verification Process has included and is fine-tuning high-risk indicators for their predictive values in identifying cases that may require more frequent reviews and cases at high risk for fraud and inaccuracies. The Ministry also plans to continue to follow up and receive calls on potential fraud cases through its Fraud

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Hotline. The Ministry has informed us that it has offered training programs on investigative and documentation skills to eligibility review officers in 1997/98.

## STAFFING

### Recommendation

*In light of changing program requirements, the Ministry should establish and adhere to reasonable workload standards to enable caseworkers to perform their work more satisfactorily.*

In addition, the Public Accounts Committee stated that:

*The Committee has found the Ministry to be less than forthright in responding to its requests for information on staffing and caseload management.*

*The Committee knows the Ministry has encountered difficulties in adopting policy and technological changes. However, the Committee should be provided with a full accounting of the ways in which the new social assistance system will respond to the Provincial Auditor's recommendations regarding the Provincial Allowances and Benefits program by September 1998. Linger concerns should not become the subjects of yet another report.*

### Current Status

The Ministry has indicated that in the current economic climate, it is not considering significant increases in the number of staff, but it is looking at different models of service delivery and the benefits of technology through its Business Transformation Project. One of that project's objectives is to improve efficiencies through redesigned business processes supported by technology.

## PERFORMANCE MEASUREMENT

Although a specific recommendation was not provided in the 1996 audit with respect to overall monitoring and evaluating of program delivery, we have followed up on the Ministry's efforts to develop program monitoring and evaluation indicators.

The Ministry is currently reviewing and updating the *Social Assistance Monitoring Resource Guide* to reflect changes made as a result of the proclamation of new legislation. The Ministry has also drafted a manual on *Full Circle Monitoring and Policy and Program Development*. This manual provides a step-by-step approach to the monitoring process including the development of outcome indicators. We understand that it will be incorporated into the *Social Assistance Monitoring Resource Guide* when completed.

Through the business planning and accountability process, the Ministry identified six performance measures related to social assistance programs. These performance measures outline specific goals, what will be measured, the targets or standards to be achieved and the commitments for the 1998/99 fiscal year.

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# Ministry of Community and Social Services: Supportive Services — 3.05

## BACKGROUND

The Supportive Services program of the Ministry of Community and Social Services provides transfer payments under the *Developmental Services Act* and the *Child and Family Services Act* to approximately 350 community-based, non-profit agencies. These agencies deliver a number of services to developmentally disabled adults and children, such as life skills training, supported independent living programs, and social and recreational programs.

In our 1996 audit, we assessed the Ministry's procedures for ensuring that payments to transfer payment agencies were reasonable and satisfactorily controlled and for ensuring that the quality of services provided was monitored and assessed.

We found that the Ministry's administrative procedures did not adequately ensure that transfer payments to agencies were reasonable, or that services purchased were monitored to ensure that the Ministry was receiving value for money spent.

In addition, improved procedures were required to ensure that occupational standards for the level and quality of services provided were defined and subsequently monitored and assessed.

## CURRENT STATUS OF RECOMMENDATIONS

The Ministry has substantially implemented our recommendation relating to the following area:

- Annual Percentage Funding Decreases.

With respect to our other recommendations, the status of action taken in those areas is detailed below.

In addition, the Standing Committee on Public Accounts reviewed our 1996 audit report and made an additional recommendation. The status of the Committee's recommendation is included in the applicable section below.

## BUDGET REQUESTS

### Recommendation

*In order to help provide an appropriate basis for making funding decisions and to help ensure that actual expenditures are appropriate, the Ministry should ensure that all agencies include sufficiently detailed and accurate information in their program budget submissions and submit them for analysis on a timely basis.*

### Current Status

The Ministry has developed a detailed budget request package which indicates program-by-program cost analysis, revenue analysis and relevant service data.



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However, for four area offices reviewed by the Ministry's Comprehensive Audit and Investigations Branch, approximately 25% of 1997/98 budget submissions had not been finalized by October 31, 1997.

## PROGRAM COST COMPARISONS

### Recommendation

*In order to ensure that program funding is reasonable and consistent, the Ministry should analyze and compare the cost of similar programs across the province. Significant variances in cost should be explained and justified.*

### Current Status

A levels-of-support assessment tool is to be developed for establishing provincial benchmarks and funding ranges for individuals in residential support programs. Additional work needs to be undertaken to establish reasonable and consistent funding levels for non-accommodation programs.

During the 1997/98 fiscal year, the Ministry started to allocate some funding to area offices based on a revised funding formula, which took into account the population within an area and included an adjustment to promote more equitable distribution of resources across the province.

## FUNDING CLASSIFICATION

### Recommendation

*To ensure equitable treatment and consistent compliance with legislation, all group homes for the developmentally handicapped should be funded under the same legislation.*

### Current Status

The Ministry advised us that the *Homes for Retarded Persons Act* is less than adequate for funding and superintending purposes in the developmental services system. As a result, the Ministry is planning to establish a provincial policy on accommodation and support, develop a levels-of-support assessment tool, develop provincial standards for group, individual and associate living arrangements, and introduce individual support agreements.

In the meantime, group homes for the developmentally handicapped continue to be funded under both the *Homes for Retarded Persons Act* and the *Developmental Services Act*.

## ANNUAL PROGRAM EXPENDITURE RECONCILIATIONS (APER)

### Recommendation

*In order to improve the effectiveness of the expenditure reconciliation process in supporting funding decisions:*

- *the information submitted by agencies should be sufficiently detailed to permit the reconciliation of the program expenditures and approved budgets with the audited financial statements; and*

- 
- *the reconciliations should be reviewed and approved, and recoverable surpluses, if any, should be recovered on a timely basis by the Ministry.*

We also note that the Standing Committee on Public Accounts made the following recommendation:

*The Ministry should take the steps necessary to implement administrative and audit procedures, supported by qualified staff, to ensure financial accountability. With respect to APERs, when a surplus is to be recovered, procedures must begin no later than three months after the end of the fiscal year and be completed within six months of year-end.*

### **Current Status**

The Ministry's 1998/99 APERs guidelines specifies its expectations of agencies regarding the information to be included in the audited financial statements and the basis of their preparation. If these guidelines are followed, the Ministry will be able to reconcile program expenditures and approved budgets with the audited financial statements.

In January 1998, the Ministry's Comprehensive Audit and Investigations Branch reviewed the status of the surplus recovery process in three area offices. They found that approximately \$700,000 and \$1.6 million of surpluses were outstanding from the 1995/96 and 1996/97 fiscal years respectively. Therefore the process of identifying and recovering surplus is still not always timely.

## **ACCOUNTABILITY FRAMEWORK**

### **Recommendation**

*The Ministry should:*

- *strengthen its implementation of the Management Board Directive on Transfer Payment Accountability in order to hold the transfer payment agencies accountable for their management of public funds; and*
- *review the governance structure over agencies with a view to clarifying the boards of directors' responsibilities and their accountability for the appropriate use of funds.*

### **Current Status**

The Ministry plans to address the accountability issue with the introduction of the individual support agreement process which is to be implemented over the next three years. Individual support agreement implementation training is in progress.

Additional governance policy is currently being considered within the context of Management Board's draft Transfer Payment Accountability Directive and the proposed Public Sector Accountability Act.

## **PROGRAM PLACEMENTS FOR INDIVIDUALS**

### **Recommendation**

*In order to ensure that individuals receive cost-effective services, the Ministry should:*

- 
- *define appropriate levels of service to be provided to individuals; and*
  - *establish criteria for, and monitor, program admissions.*

### **Current Status**

Provincial policy on accommodation and levels of support is to be completed by November 1998, with resulting standards to be available by December 1998. When completed, the levels-of-support tool will also aid in defining appropriate levels of service to those individuals in accommodation programs.

Other agencies are to develop their own program placement policies, which are to be monitored by the Ministry through an annual agency status report. Status reports are to be available by July 1998.

## **QUALITY OF SERVICE**

### **Recommendation**

*In order to ensure that it is receiving value for the money spent, the Ministry should:*

- *establish acceptable standards of service and criteria for evaluating service quality; and*
- *on a periodic basis, evaluate the quality of the services provided.*

### **Current Status**

This issue was to be addressed within the Developmental Services Accountability Initiative, which has yet to be completed. The Ministry plans to develop standards of service in all major areas of developmental services with an expected implementation date of April 1999. A draft paper on *Standards for Service Providers who Support People with Challenging Behaviours* was prepared in June 1998 and is expected to be finalized in September 1998. Residential standards for community living supports are expected to be available by October 1998.

## **SPECIAL SERVICES AT HOME (SSAH): BACKGROUND**

This program is intended to provide direct financial support to disabled individuals living at home with their families and to families caring for disabled members who require services beyond the care normally provided by the family. The funding provided is to be used to purchase services which are not otherwise available in the community and which can be broadly described as addressing personal development and growth or family relief and support. Families enter into a renewable funding agreement with the Ministry for a period not to exceed one year.

We found that improvements were needed to strengthen the program's administrative procedures to ensure that: information provided by applicants is verified or assessed for program eligibility at the time of initial application and at agreement renewal; and the correlation between the amount of funding provided to individuals and the factors assessed in the funding decision is documented.

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## CURRENT STATUS OF RECOMMENDATIONS

The Ministry has substantially implemented our recommendations relating to the following area:

- Program Duplication.

With respect to our other recommendations, the status of actions taken in those areas is as follows:

### PROGRAM ELIGIBILITY

#### Recommendation

*In order to ensure and demonstrate that only eligible individuals receive support, the Ministry should:*

- *verify information provided by applicants;*
- *adequately document the assessment of each applicant's needs; and*
- *require recipients to report changes in their circumstances which could affect their eligibility.*

#### Current Status

The Ministry has developed a new draft Supportive Services at Home application form which is expected to be introduced to the area offices in September 1998. It requires verification of residency and includes standard forms to be used in the assessment of each applicant's needs. Additional work remains to be done to ensure that recipients report changes in their circumstances which could affect their eligibility.

### FUNDING APPROVAL

#### Recommendation

*In order to ensure that funding decisions are equitable, the Ministry should:*

- *clearly document both its assessment of the factors considered in the funding decision and the basis for the individual funding levels approved; and*
- *ensure that individuals with similar needs receive similar levels of funding within and between area offices as is required by the program.*

#### Current Status

Individual area offices had developed forms for use in assessing the factors considered in funding decisions and demonstrating the basis for the individual funding levels approved. The Ministry has informed us that head office is planning to develop standard forms for use across the province.

Area offices are expected to implement requirements to ensure that reapplications receive the same priority as new applications and that funding will be time-limited as originally intended. An internal review by the Ministry's Comprehensive Audit and Investigations Branch in January 1998 found that this requirement had been implemented in two of four offices reviewed.



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## ADMINISTRATION FEES

### Recommendation

*The Ministry should maximize the cost effectiveness of the program by making every attempt to limit administration fees to the 5% to 10% funding range noted in the draft Procedures Manual.*

### Current Status

The Ministry is preparing an overall corporate policy dealing with the cost of administration. According to the Ministry, the long-term target for administration costs is 10% of program funding. In the interim the cap will be set at 12% for 1998-99, decreasing to 11% in 1999-2000 and finally set at 10% in 2000-01. The savings recovered from lowering administration costs to meet the cap will be reinvested in direct services.

## Ministry of Education and Training: Colleges of Applied Arts and Technology — 3.07

### BACKGROUND

There are 25 publicly funded colleges of applied arts and technology in Ontario that provide programs to some 300 communities through 90 campuses located in 60 cities and towns throughout the province. Colleges offer a wide range of postsecondary programs leading to certificates or diplomas for students who have obtained secondary school diplomas or equivalents.

Under the *Ministry of Colleges and Universities Act*, the Minister of Education and Training has ultimate responsibility for the establishment, maintenance, conduct and governance of colleges. For each college, the Act provides for the establishment of a board of governors, which is a corporation with powers and duties under the *Corporations Act*, to govern its activities.

The Act established the Ontario Council of Regents for Colleges of Applied Arts and Technology as a provincial agency accountable to the Minister. The Council of Regents' primary roles are to: make appointments to each college's board of governors; act as the bargaining agent for colleges; recommend to the Minister the terms and conditions of employment for most college employees; and advise the Minister on long-term issues affecting colleges.

In 1996 our audit objective was to assess whether the Ministry had established an accountability framework for Ontario's colleges that included satisfactory systems and procedures to:

- measure and report on effectiveness in achieving legislated and stated goals and objectives for the colleges;

- 
- ensure that colleges deliver quality postsecondary programs economically, efficiently and in compliance with the *Ministry of Colleges and Universities Act*; and
  - monitor the financial condition of colleges and control payments made to colleges under the Act.

## CURRENT STATUS OF RECOMMENDATIONS

The Ministry had taken several significant actions to address our recommendations for strengthening the accountability framework for colleges. The status of these actions as of April 30, 1998 is set out below. If all system, process and reporting improvements are fully implemented as planned, the Ministry will have a much stronger accountability framework for colleges in Ontario.

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### MINISTRY GOALS AND FUNDING POLICIES

#### Recommendation

*To improve accountability for results by colleges, the Ministry should:*

- *establish clear, measurable goals for the college system in Ontario;*
- *develop the systems necessary to reliably track and report performance in achieving the goals;*
- *report publicly on its performance in achieving its planned goals and on the performance of the college sector;*
- *provide leadership to facilitate effective cooperation among colleges; and*
- *establish funding policies that are consistent with and contribute to the achievement of stated goals.*

#### Current Status

The Ministry had established two goals for the college system—excellence and accountability—together with five key performance indicators for measuring the outcomes of college programs and the achievement of system goals. Data collection, reporting and audit procedures were being developed in 1998 with the objective of publishing each college's results for 1998/99 in 1999/2000. System results will also be published with the Ministry's Business Plan at that time. Performance will begin to influence operating grants to colleges in 2000/01.

The Ministry was also supporting the implementation over five years of a college Common Information System which is intended to improve comparability among colleges and thereby permit further development of performance indicators, enhance the measurement of performance and provide more useful data for program and policy decisions. System implementation was beginning in several colleges in 1998.

The Ministry also provided us with several examples of initiatives underway to improve cooperation among colleges.

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## COLLEGE GOVERNANCE

### Recommendation

*To promote effective college governance, the Ministry, in conjunction with the Council of Regents and the Association of Colleges of Applied Arts and Technology of Ontario, where appropriate, should:*

- *pursue a more comprehensive legislative mandate for college boards of governors including specifications for conduct, powers, roles and responsibilities;*
- *provide guidance to college boards of governors regarding the performance information necessary to effectively discharge their oversight responsibilities including procedures for evaluating college presidents; and*
- *enforce the existing legislated requirement for ministry approval of the process used by a board of governors to review its president's performance.*

### Current Status

The Ministry expected that the Public Sector Accountability Act announced in the 1997 *Ontario Budget* would provide a comprehensive legislative framework for accountability in the public sector, including requirements for performance reporting against organizational objectives and plans. Colleges and their governing boards are expected to be included under this act when it is passed.

In 1997 the Council of Regents issued new Conflict of Interest Guidelines for Governors and a new Governance Nomination and Appointment/Reappointment Protocol for External Members that includes key responsibilities and characteristics of an effective board.

Recommendations for guidelines to assist college boards to review the performance of college presidents were being incorporated in a revised salary administration program that included a performance management process for presidents. This program was to be presented to the Minister for approval in the near future.

The Council of Regents had also prepared guidelines for the termination of a college president's contract. These were to be reviewed at a future meeting of the Council and then presented to the Minister for approval.

## PROGRAM RELEVANCE AND QUALITY PERFORMANCE MEASUREMENT AND REPORTING

We provided the Ministry with a number of detailed observations and recommendations to act on in order to enhance program relevance and quality and to improve public reporting on performance.

### Current Status

Significant actions taken to date by the Ministry include:

- focusing the five key performance indicators on measures of program relevance and quality—graduation rate; student satisfaction; graduate employment; graduate satisfaction; and employer satisfaction;

- 
- accelerating the development of program standards;
  - establishing a Strategic Program Investment Fund to support projects that rationalize and improve programs, the results of which were to be reported to the Ministry by June 30, 1998;
  - issuing improved reporting standards for colleges that reflect principles established by the Canadian Institute of Chartered Accountants and require more consistent reporting of budget and audited financial information; and
  - clarifying requirements for monitoring financial condition and obtaining approvals for deficits.

## 4.00

# Ministry of Education and Training: Ontario Training and Adjustment Board — 3.08

## BACKGROUND

The Ontario Training and Adjustment Board (OTAB) was created by the *Ontario Training and Adjustment Board Act 1993* to coordinate and streamline Ontario's training and adjustment programs and make them more accessible to all Ontarians. Prior to OTAB's establishment, approximately 25 such programs were administered by five provincial ministries. OTAB was subject to broad policy direction from the Ministry of Education and Training.

In 1996 the objectives of our audit were to assess whether there were adequate systems and procedures:

- to measure and report on the extent to which key activities and programs meet legislated, strategic and program objectives; and
- to deliver training programs and services designed to meet labour market and participant needs economically, efficiently and in compliance with requirements.

On June 30, 1996, subsequent to the completion of our audit, the government wound up OTAB and transferred responsibility for management of the programs and policy work to a newly established Training Division of the Ministry.

## CURRENT STATUS OF RECOMMENDATIONS

Since 1996 the Ministry's Training Division had further streamlined the training and adjustment programs we examined. Some 14 programs that included Futures, Youth Employment Counselling Centres, Ontario Basic Skills and Literacy had been combined into a Workplace Preparation Program. This new program has two streams: Job Connect, delivered primarily by community colleges and community-based service agencies; and Literacy and Basic Skills, delivered primarily by colleges, school boards and community-based training agencies.



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Significant progress had been made on our recommendations with the design of the Workplace Preparation Program. Program guidelines for the new Job Connect stream were issued in April 1997 that addressed our recommendations in the following areas: Measuring and Reporting Performance; Funding and Contractual Arrangements with Delivery Agents; Monitoring Delivery Agents; and Standards for Training Services. Similar guidelines were issued in draft form in January 1998 for the Literacy and Basic Skills stream and are planned to become effective on April 1, 1999 once field testing has been completed.

With respect to other programs and recommendations, the status of actions taken in those areas is set out below:

## COORDINATION OF PROGRAMS AND SERVICES

### Recommendation

*In order to achieve better coordination of programs and services, the Ministry should:*

- *identify and eliminate areas of potential duplication in programs, services and administration between the province and the federal government; and*
- *request local boards, once established, to develop as quickly as possible the timetables and action plans needed to coordinate and streamline local training and adjustment programs and services.*

### Current Status

Negotiations for a new Canada-Ontario Labour Market Development Agreement were still at an early stage. The Ministry was continuing its negotiations with the federal government to eliminate areas of duplication in programs, services and administration between the province and the federal government. Therefore, opportunities to improve coordination and reduce duplication remain, particularly with services for youths.

The Ministry's Job Connect guidelines include a number of steps that delivery agents must take to ensure that local services are planned, coordinated and evaluated with local stakeholders and other service providers, including the federal government.

## LABOUR MARKET INFORMATION BASE

### Recommendation

*To facilitate effective planning and delivery of training programs and services, the Ministry and local boards, once established, should develop detailed action plans and timetables to obtain timely, reliable labour market information as soon as possible.*

### Current Status

As of April 30, 1998, twenty-four of 25 local boards had been established and local labour market profiles had been prepared for each established board. Six local boards had developed plans to address identified service needs in their areas. Most local boards had only recently begun their operations and so were still in the process of collecting reliable labour market information.

The Ministry had prepared resource guides to help local boards make use of labour market information and to undertake local labour market information research and surveys. The

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Ministry continues to develop and update local labour market information. The Ministry and Human Resources Development Canada continue to provide workshops for local boards' staff on environmental scanning, labour market information and local economic development issues.

## APPRENTICESHIP PROGRAM ADMINISTRATION

### Recommendations

Our recommendations dealing with Measuring and Reporting Performance; Funding and Contractual Arrangements with Delivery Agents; Monitoring Delivery Agents; and Standards for Training Services also applied to Apprenticeship Training, which had been undergoing reform consultations since 1996. Actions to address these recommendations were delayed pending the introduction of the new delivery model and legislation by late spring 1998.

We also recommended:

*In order to improve apprenticeship program administration and results, the Ministry should:*

- *obtain from the Ministry of Labour information on trades persons not maintaining certificates;*
- *consider upgrading the level of education and skills required for entry into the programs;*
- *record and track the reasons for withdrawals and promote best practices for timely intervention by delivery agent staff with problematic students; and*
- *improve the apprenticeship information system to ensure data integrity and easier access to information through greater integration of databases.*

### Current Status

A reporting system developed in conjunction with the Ministry of Labour to improve tracking of certificates for practising tradespersons started May 1, 1998. It is being piloted in the Niagara area and is focusing on the construction trades. Some success has already been realized by the six or seven cases reported by the Ministry of Labour that have helped ministry staff track and resolve various issues involving certification of tradespersons in the Niagara area.

The Minister announced the new apprenticeship legislation on June 25, 1998. The minimum age to sign an apprenticeship training agreement had been set in legislation at 16 years. Industry will set the minimum education levels for apprentices. An initiative named Evaluating Academic Readiness for Apprenticeship Training has been piloted and implemented for 10 trades. It will assess an applicant's readiness for apprenticeship training, reduce the incidence of early withdrawal, and identify and evaluate upgrading requirements for the skills of journeypersons. Work to expand the initiative during the 1998/99 fiscal year will include the completion of academic skills lists, diagnostic tests and learning materials for up to an additional 30 trades.

A database analysis and query package—COGNOS—has been purchased to facilitate access to management information for decision making. User training is under way. The Ministry is moving ahead with seeking appropriate approvals for integrating information systems and improving the efficiency and effectiveness of administration and client service during 1989/99 and 1999/2000.

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# Ministry of the Environment: Environmental Sciences and Standards Division — 3.09

## BACKGROUND

The Environmental Sciences and Standards Division is responsible for helping the Ministry fulfil its mandate of protecting the environment and human health by: assessing toxicological data to set standards for pollutants in the environment and providing expert advice about the environment to other ministry staff and to the public; monitoring air, water and soil to assess and report on the sources and extent of various pollutants in Ontario as well as monitoring and tracking the movement of hazardous waste materials; and developing programs and regulations to address environmental issues which pose significant risks to the province.

In 1996 we assessed whether the Ministry had satisfactory procedures in place to:

- measure and report on the performance of the Environmental Sciences and Standards Division in contributing to the effectiveness of the Ministry in protecting the environment and human health; and
- ensure that services provided by the Division were being delivered with due regard for economy and efficiency.

We recommended that the Ministry develop and update its standards for air pollutants on a timely basis. We also recommended that the Ministry improve its monitoring efforts in the areas of air, water and hazardous waste materials, and develop a more pro-active and systematic approach to managing ground water.

## CURRENT STATUS OF RECOMMENDATIONS

The Environmental Sciences and Standard Division has taken action on all the recommendations made in 1996. Recommendations relating to the following areas have been substantially implemented:

- Ambient air monitoring network;
- Data management; and
- Utilization of marine resources.

However, progress in implementing our recommendations in the following areas has been slow:

### Recommendation

*In order to safeguard the environment and human health, the Ministry should develop and update its air quality standards on a timely basis.*

### Current Status

In response to our recommendation in 1996, the Ministry indicated that it had developed "an aggressive three-year plan for setting standards through a number of mechanisms, including



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adoption from other jurisdictions, federal/provincial harmonization and partnership with interested stakeholders.” However, none of the 226 air standards identified in 1992 by Ministry scientists as “requiring substantial reduction and/or reassessment or further review” have been updated.

As of June 30, 1998, 10 proposed air standards have been posted on the Environmental Registry for public comment. The Ministry planned to propose another 15 air pollutant standards for consultation during the 1998/99 fiscal year.

## HAZARDOUS WASTE MONITORING

### Recommendation

*To allow for better monitoring and control of hazardous waste disposal, the Ministry should investigate ways to improve the use of the Hazardous Waste Information System. Registered generators not reporting disposal should be identified and the reasons for their not reporting should be obtained.*

### Current Status

The Ministry sent out a survey in 1996 to approximately 11,000 registered generators that had not reported any activities for three years to determine the reasons for their lack of reporting. About 3,000 of these registered generators responded to the survey, with over 800 requesting deletion of their registrations. However, the Ministry has not yet identified the reasons for the lack of reporting of hazardous waste disposal from the other 8,000 generators that did not respond to the survey. A list of inactive generators has been provided to regional offices for tracking and for targeting facilities for inspection activities.

## GROUNDWATER PROTECTION

### Recommendation

*The Ministry should develop a more pro-active and systematic approach in order to better manage ground water quantity; such an approach should include the updating of water well information system and aquifer maps to allow for better assessment of current groundwater use in the province and for timely remedial action.*

### Current Status

The backlog of water well records to be entered into the water well information system has now been cleared. However, the aquifer maps had not been updated.

### Recommendation

*The Ministry should monitor groundwater quality on a systematic basis to provide assurance of its safety for the environment and human health as well as to enable the Ministry to take prompt remedial action when necessary.*

### Current Status

In response to our recommendation, the Ministry indicated in 1996 that it had initiated a review of ground water management and protection in conjunction with a number of other ministries. The objective of the review was to develop an overall ground water management strategy



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based on a common set of management and protection principles and a clearer delineation of roles and responsibilities among provincial agencies, local/regional and non-government groups. As of June 1998, a ground water strategy had yet to be finalized.

## Ministry of Finance: Corporations Tax — 3.10

### BACKGROUND

All corporations with a permanent establishment in Ontario are subject to the *Corporations Tax Act*. Corporations tax has four main components—income tax, capital tax, premium tax and corporate minimum tax.

For the 1995/96 fiscal year, the province collected corporations tax totalling \$5.4 billion (net of refunds totalling \$509 million) comprising \$3.9 billion in income tax, \$949 million in capital tax, \$558 million in premium tax and \$22 million relating to the corporate minimum tax.

Our audit objective was to assess whether reasonable procedures were in place to ensure that the Ministry collected the proper amount of corporations tax in a timely manner and in accordance with statutory requirements.

### CURRENT STATUS OF RECOMMENDATIONS

Recommendations relating to the following areas have been substantially implemented:

- Penalties;
- Federal Assessments and Reassessments; and
- Interest Paid on Refunds.

The current status of the remaining recommendations is as follows:

#### *REDUCING THE TAX GAP*

##### **Recommendation**

*The Ministry should conduct additional research into the areas contributing to the tax gap and focus its enforcement efforts in these areas in order to reduce the tax gap.*

##### **Current Status**

The Ministry is taking ongoing action to identify and to end unfair tax avoidance schemes used by corporations to avoid paying taxes. A major initiative in this regard was the passage of Bill 164, which received Royal Assent on December 18, 1997, and addresses a number of tax avoidance schemes.

Other initiatives are also underway with respect to reducing the tax gap. For example, the application of the General Anti-Avoidance Rules (GAAR) is a major initiative of both the federal and Ontario governments.

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## AUDIT COVERAGE

### SMALL CORPORATIONS

#### Recommendation

*To encourage compliance with legislative tax requirements by small corporations and to better detect and collect unpaid taxes owing to the province, the Ministry should:*

- *significantly increase its audit coverage of small corporations primarily through increased desk audits; and*
- *obtain annual audit coverage statistics and recovery rates by size of corporation and industry sector from Revenue Canada and use that information to assist in planning its audit strategies.*

#### Current Status

The Ministry planned to fully implement the extended desk audit function during 1998/99 by hiring 33 additional staff between November 1996 and June 1997 as announced in the 1996 *Ontario Budget*. However realization of the full benefits of the newly hired staff has been negatively affected by the higher than expected auditor turnover rate with its associated recruitment and training requirements. The Ministry remains hopeful that it can fill existing vacancies during 1998 and fully implement the extended desk audit function as originally intended.

In addition, the 1998 *Ontario Budget* announced the government's intention to continue to hire more audit staff to maintain the integrity of the tax system, which will further improve the audit coverage of corporations.

The Ministry is receiving Revenue Canada's annual audit coverage statistics and recovery rates by size of corporation and industry sector and considers this information in planning its own audit strategies.

### REFERRALS TO SPECIAL INVESTIGATIONS

#### Recommendation

*To increase corporate tax revenues by discouraging tax evasion, the Ministry should ensure that suspected cases of willful tax evasion are referred to the Special Investigations Branch for possible prosecution.*

#### Current Status

Corporations Tax Branch and Special Investigations Branch have established a referral project with the objective of conducting a thorough review of the audit process and referral guidelines with a view to enhancing their effectiveness. A draft referral policy has been prepared which is currently under discussion. The Ministry intends to implement the referral policy during 1998/99.

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## SELECTION OF AUDITS

### Recommendation

*The Ministry should program its computer system to evaluate all returns against appropriate risk-based criteria and should conduct desk audits on the returns to identify additional taxes owing to the Ministry. Additionally, those returns presently awaiting desk audit should be dealt with before they become statute barred.*

### Current Status

User requirements have been completed and the business design of the Audit Risk-Based Point System was approved and signed off during March 1998. However, construction of the Audit Risk-Based Point System has been temporarily put on hold because of other priorities. The Ministry remains hopeful that the system can be completed during the current year.

Notwithstanding, staff are clearing returns awaiting desk audits on a priority basis.

## Ministry of Health: Alternate Payment Program — 3.11

### BACKGROUND

The primary method of paying physicians for providing medical services to their patients is on a fee-for-service basis through the Ontario Health Insurance Plan (OHIP). The Alternate Payment Program was first introduced in the late 1960s to fund health care providers for medical services which were seen as not being adequately addressed by fee-for-service payments.

The Ministry has negotiated agreements with health service providers such as physician groups, clinics and hospitals to fund the delivery of certain medical services on a non-fee-for-service basis. These agreements are authorized by the *Ministry of Health Act* and the *Health Insurance Act* and are collectively referred to as Alternate Payments.

In 1996 we assessed:

- the adequacy of the systems and procedures in place to administer agreements; and
- the adequacy of the procedures in place to measure and report on program effectiveness.

### CURRENT STATUS OF RECOMMENDATIONS

In its 1996-1997 *Annual Report*, the Standing Committee on Public Accounts recommended that:

*The Ministry of Health should act on the principal issues raised by the Provincial Auditor. These are the need to set measurable service expectations, to develop data collection systems for both the clinical and non-clinical services provided under the agreements, and to perform timely reconciliations of the recipients'*

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*financial statements and service data to the funding provided. Responding to these issues will ensure that value is received for the funding provided.*

Recommendations relating to the following areas of our 1996 report have been substantially implemented: Single Service Medical Agreements; and Academic Hospital Agreements—Agreement Funding Components.

With respect to our other recommendations, the status of action taken in those areas is as follows:

## **ACADEMIC HOSPITAL AGREEMENTS**

### **ACCOUNTABILITY**

#### **Recommendation**

*The Ministry should link funding for clinical, research, educational and other activities directly to measurable performance targets.*

#### **Current Status**

Contracts that have clinical, research, and educational activities are reporting as per their contracts. The Ministry indicated that evaluation criteria should be developed during the current fiscal year through a joint effort of the Ministry and the Institute for Clinical Evaluative Sciences.

## **INFORMATION REPORTING REQUIREMENTS**

### **Recommendation**

*To enable the Ministry to properly evaluate the adequacy of resources committed to clinical, research and educational activities and gear the funding accordingly, the Ministry should:*

- *specify the level of detail to be provided by the recipients; and*
- *enforce the current reporting requirements.*

#### **Current Status**

Existing reporting requirements are being enforced. The Ministry has indicated that a broad evaluation protocol, which can be tailored to fit the needs and specifications of a particular contract, is being developed, and that an evaluation workshop will be held before the end of 1998.

## **DATA COLLECTION SYSTEMS**

### **Recommendations**

*For proper health care management and planning, the Ministry should ensure that data collection systems that will provide the necessary information are developed on a timely basis.*

*Physicians providing clinical services under alternate payment agreements should be required to continue providing information to OHIP until replacement systems are operational.*



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## Current Status

The recommendations have been partially implemented. However, full integration with the OHIP database as well as broader application to other large alternate payment plans has been deferred. These will be reconsidered as part of the evaluation anticipated to be conducted in the fall of 1998.

## PROGRAM EFFECTIVENESS AND EVALUATION

### Recommendation

*To ensure that medical services are provided in an effective manner, the Ministry, in conjunction with the recipients, should develop:*

- *procedures and performance indicators to measure program effectiveness;*
- *a plan for conducting funding evaluations on existing single medical service agreements; and*
- *guidelines for evaluating and reporting on the services delivered by the recipients.*

### Current Status

Templates have been developed where annual Patient/Customer Service Assessment Reports are defined as deliverables. Also, templates for quarterly analyses of Shadow Billing Service Reporting have been developed and implemented. The Ministry is working with the Institute for Clinical Evaluative Sciences and the academic hospitals to develop an evaluation methodology and process for Alternate Payment Plans.

# Ministry of Health: Assistive Device Services Activity — 3.12

## BACKGROUND

The Assistive Device Services Activity consists of the Assistive Devices and Home Oxygen Programs and is administered by the Ministry's Assistive Devices Branch. The mission of the Activity is to facilitate the rehabilitation of Ontario residents who have long-term physical disabilities by providing financial assistance to purchase selected basic personalized assistive devices appropriate for the individual's needs and essential for independent living (for example, wheelchairs, hearing aids, incontinence supplies and home oxygen).

In 1996 we assessed whether the Ministry had adequate procedures in place:

- to measure and report on the effectiveness of the Activity;
- to approve, process and pay claims; and
- to ensure that resources were managed with due regard for economy and efficiency.

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## CURRENT STATUS OF RECOMMENDATIONS

Recommendations relating to the following areas of our 1996 report have been substantially implemented: Eligibility Criteria – Incontinence Supplies; and Tax Treatment of Grants.

With respect to our other recommendations, the status of actions taken in those areas is as follows:

### MANAGEMENT OF RESOURCES

#### CONSISTENCY IN ELIGIBILITY AND FUNDING

##### Recommendation

*To ensure consistency and fairness, the Ministry should review eligibility requirements and funding provided for each assistive device category.*

##### Current Status

The Ministry was negotiating a settlement with the Ontario Human Rights Commission so that the Assistive Device Services Activity will not require eligibility criteria that violate the *Ontario Human Rights Code*.

#### ELIGIBILITY CRITERIA – HOME OXYGEN

##### Recommendation

*To ensure that home oxygen is provided only to eligible individuals, the Ministry should:*

- *implement guidelines for conducting independent medical tests for determining eligibility; and*
- *assess whether the appeal process is operating effectively.*

##### Current Status

The Home Oxygen Program (HOP) has contracted with researchers to conduct an Independent Assessment Pilot Project. The project, using health professionals not associated with oxygen vendors, will develop and test a protocol for standardizing an oxygen assessment process to be used in the home. During the first phase, which was scheduled for completion in September 1998, researchers would measure medical stability for randomly selected HOP clients to determine whether they continue to meet HOP medical criteria for long-term oxygen therapy. The Ministry indicated that a second phase might be needed to determine whether individuals not meeting medical criteria would benefit from oxygen. The review of the HOP, including appeal process, is dependent on the outcome of the pilot project.

In its 1996-97 *Annual Report*, the Standing Committee on Public Accounts recommended:

*The Committee should be provided with the results of the commissioned study as soon as they become available. The Ministry should appear before the Committee in October 1998 to discuss those results and how they will affect the home oxygen program.*

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## PRICING – HOME OXYGEN

### Recommendation

*To reduce oxygen expenditures, the Ministry should:*

- *review at the earliest opportunity the costs relating to oxygen concentrators and liquid oxygen; and*
- *consider more cost-effective alternatives before paying the liquid oxygen rate.*

### Current Status

A request for proposal has been issued to contract an external accounting firm to complete an independent costing audit of registered HOP vendors to determine the true cost of oxygen by September 1998.

In its 1996-97 *Annual Report*, the Standing Committee on Public Accounts recommended that:

*The Ministry should appear before the Committee in October 1998 to report on how it will proceed with the acquisition of home oxygen services, in light of the Management Board Secretariat's May 16, 1997 confirmation that the acquisition of those services falls under the directive requiring competitive tendering. . . .*

*The Committee should be provided with the results of the independent audit of home oxygen costs and prices as soon as they become available. The Ministry should appear before the Committee in October 1998 to discuss those results and how they will affect the home oxygen program.*

## PRICING – BLOOD GLUCOSE TESTING STRIPS

### Recommendation

*In order to ensure that services are delivered in an economical manner, the Ministry should investigate the feasibility of consolidating the assistance programs for blood glucose testing strips.*

### Current Status

The Assistive Devices Program is undergoing a program review. The matter of consolidation of blood glucose testing strips is on hold pending decisions on the future direction of the Program.

# Ministry of Health: Drug Benefits Program — 3.13

## BACKGROUND

The Drug Benefits Program includes the Ontario Drug Benefit Program, the Trillium Drug Program and the Special Drugs Program which all operate under the *Ontario Drug Benefit Act*, the *Drug Interchangeability and Dispensing Fee Act* and the *Health Insurance Act*.

- The Ontario Drug Benefit Program provides many prescription drug products at no cost to Ontario seniors, social assistance recipients, individuals receiving home care services and individuals in homes for special care and long-term care facilities. Commencing in 1996, eligible individuals are required to make a copayment toward the cost of their prescription drugs.
- The Trillium Drug Program provides access to the Ontario Drug Benefit Program for people whose drug expenditures exceed a certain portion of their incomes.
- The Special Drugs Program provides funding to cover the costs of certain drugs used in the treatment of specific conditions.

The Ministry's Drug Programs Branch is responsible for administering the Drug Benefits Program. The mission of the Branch is to provide leadership in achieving optimal pharmaceutical services for the protection and improvement of the health status of the residents of Ontario.

In 1996 we assessed whether the Ministry had adequate procedures in place to:

- measure and report on the effectiveness of the Program;
- ensure compliance with legislation and assess whether its policies and procedures for the approval, processing and payment of claims were adequate and were being followed; and
- ensure that resources were managed with due regard for economy and efficiency.

## CURRENT STATUS OF RECOMMENDATIONS

Recommendations relating to the following areas of our 1996 report have been substantially implemented: Formulary Benefits—Generic Drugs, Pricing and Price Reductions; Nutrition Products—Coverage; and Scheduling of Inspections.

With respect to our other recommendations, the status of actions taken in those areas is as follows:

### PERFORMANCE MONITORING AND EVALUATION

#### DRUG USE REVIEW

##### Recommendation

*To promote the appropriate and economical prescribing of drugs, the Ministry should ensure that a drug use review program is established and take appropriate follow-up action where necessary.*

##### Current Status

Action to address this recommendation is in process. To encourage appropriate and cost-effective prescribing, the Ministry now has four voluntary prescribing guidelines, with others being developed. Linkages to prescribing guidelines will allow the Ministry to prospectively evaluate drug use.

The Ministry's Pilot for Appropriate Anti-Infective Community Therapy (PAACT) shows that voluntary adoption of the guidelines encourages cost-effective drug prescribing. For example,



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PAACT results indicated a 19.3% reduction in claims volume for all anti-infectives during a time period when the provincial reduction was only 8.5%.

## **COMPLIANCE WITH LEGISLATION, POLICIES AND PROCEDURES**

### **FORMULARY BENEFITS - DELISTING DRUGS FROM THE FORMULARY**

#### **Recommendation**

*To ensure that the Ontario Drug Benefit Program covers only drugs which are appropriate and cost effective, the Ministry should:*

- *develop criteria to determine which Formulary drugs should be retained, deleted or restricted; and*
- *regularly re-evaluate all drugs listed in the Formulary in accordance with the established criteria.*

#### **Current Status**

During drug submission reviews, the Drug Quality and Therapeutics Committee (DQTC) has evaluated and recommended that certain products be either removed from the list of benefits or that the reimbursement status be changed from general listing to limited use. This helps Drug Programs Branch staff ensure that only drugs that are appropriate and cost effective are reimbursed.

Manufacturers are informed of the DQTC's recommendations to change the reimbursement status and are given an opportunity to respond. An evaluation of the reimbursement status of several drug products is currently under review by the DQTC.

### **LIMITED USE DRUGS**

#### **Recommendations**

*To ensure that the cost to the Ontario Drug Benefit Program is minimized, the Ministry should pay for limited-use drugs only if they are prescribed for one of the Ontario Drug Benefit Program's specified conditions or circumstances.*

*In addition, the Health Network should be modified to eliminate "other" as an acceptable reason for use and reject claims for conditions and circumstances not covered.*

#### **Current Status**

Actions to address these recommendations are in process.

Management of listed benefits on the Formulary is being strengthened through an ongoing review of the limited use program. This will include ensuring that conditions for payment are met (for example, adding a written explanation from the doctor). The "other" criteria code is no longer accepted.

A number of other drugs will have their listings changed to limited-use with appropriate clinical criteria. Claims for reimbursement will be linked to the prescribing guidelines.

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Based on an audit of supporting documentation for the limited-use and nutrition product forms, the Ministry estimates that approximately 600 of the province's 2,500 pharmacies have complete documentation to support their Ontario Drug Benefit claims and will not receive recovery letters. The Ministry is discussing the recovery process for the remaining pharmacies with the Ontario Pharmacists' Association.

## **NUTRITION PRODUCTS - ELIGIBILITY**

### **Recommendation**

*To ensure that only eligible individuals who meet the specified medical requirements receive nutrition products through the Ontario Drug Benefit Program, the Ministry should monitor the claims for these products and take corrective action where necessary.*

### **Current Status**

Part of the ongoing review of the nutrition products program will be to recommend and implement initiatives that increase program accountability for eligibility and reimbursement.

## **NUTRITION PRODUCTS - PRICING**

### **Recommendation**

*To lower costs to the Ontario Drug Benefit Program, the Ministry should investigate the feasibility of paying the lowest price in each category of nutrition products where there are no identifiable therapeutic differences among different brands.*

### **Current Status**

Nutrition products have been the subject of an internal review and proposals on potential changes to the program are being considered.

## **DIABETIC TESTING AGENTS**

### **Recommendation**

*In order to decrease costs to the Ontario Drug Benefit Program, the Ministry should investigate the feasibility of reimbursing blood glucose test strips at the lowest price in that category.*

### **Current Status**

The Ministry is continuing to review the reimbursement model for blood glucose test strips. A draft options paper has been prepared for consideration.

## **INSPECTIONS**

### **CONDUCTING INSPECTIONS**

#### **Recommendation**

*To ensure that inspections are properly completed and that recoveries of incorrectly billed claims are made when appropriate, the Ministry should prepare and implement formal policies and procedures for conducting inspections.*

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In its 1996-97 *Annual Report*, the Standing Committee on Public Accounts recommended that:

The Ministry has said that the Pharmaceutical Audit system should be fully implemented by September 30, 1997. The Committee should be provided with a detailed accounting of the ways in which the system will respond to the Provincial Auditor's recommendations regarding the inspection process, along with an analysis of the impact on inspection resources and potential changes in legislation.

### **Current Status**

Action to address this recommendation is still in process. The Ministry anticipates that the final draft of a policy and procedures manual, which will include the Pharmaceutical Audit System, will be completed for review and approval by management by the summer of 1998.

## **VERBAL PRESCRIPTIONS**

### **Recommendation**

*In order to identify potentially false billings, the Ministry should implement a procedure to verify, on a test basis, verbal prescriptions with patients and/or prescribers.*

### **Current Status**

The necessary enhancement of the Health Network was deferred to Phase II of the Pharmaceutical Audit System. Since the current contract with the Health Network service provider ends November 30, 1998, the timeframe for implementing Phase II is not known. A fact sheet describing general requirements for implementing this enhancement was completed. A document specifying the exact details necessary for implementation is being developed. In the meantime, the inspection unit verifies verbal prescriptions through physician and patient verification letters where false billings are suspected.

## **MANAGEMENT OF RESOURCES**

### **EVALUATION OF THE HEALTH NETWORK**

#### **Recommendation**

*To be in a position to make an appropriately informed decision about the future of the Health Network system, the Ministry should assess whether the intended benefits of the Health Network have been realized.*

Also, in its 1996-97 *Annual Report*, the Standing Committee on Public Accounts recommended that:

The Ministry should provide the Committee with the results of its evaluation and performance review of the Health Network's service bureau contract by October 31, 1997. At the same time, the Committee should also be provided with the Ministry's justification for tendering or not tendering the contract when it expires in November 1997.

### **Current Status**

Our recommendation has not yet been fully implemented. The Ministry has indicated that a full evaluation had been delayed due to competing priorities such as the introduction of the Trillium Drug Program, copayments and the prorated deductible. Based on a preliminary evaluation of benefits realized through the Health Network, the Ministry reports success in a variety of areas:

- implementation of cost-sharing and the Trillium Drug Program, which targets coverage to low-income families;
- drug utilization review, such as identifying on-line potentially harmful drug-to-drug interactions. On average, pharmacists are alerted to 25,000 potentially serious interactions per month; and
- adjudication of claims on-line, which has improved the administration of the program, for example, by decreasing staff time required to process special claims.

## **TRILLIUM DRUG PROGRAM**

### **VERIFICATION OF INCOME**

#### **Recommendation**

*To ensure that only eligible persons benefit from the Trillium Drug Program, the Ministry should:*

- *verify selected applicants' incomes with Revenue Canada where necessary; and*
- *implement procedures to recover funds when appropriate.*

#### **Current Status**

A procedure to recover funds when required has been implemented with interest rates charged on overdue accounts based on rates set by the Ministry of Finance.

The Branch is in the process of developing computer system changes that would allow an audit of incomes reported to the Trillium Drug Program. Discussions are underway with Revenue Canada on accessing the necessary information.

## **SPECIAL DRUGS PROGRAM**

#### **Recommendation**

*Since the Trillium Drug Program covers people with high drug costs relative to their incomes, the Ministry should consider whether the Special Drugs Program is needed in its present form and, if so, whether it is consistent with the Ontario Drug Benefit Program's objective of providing equitable protection.*

#### **Current Status**

The Branch is reviewing its programs on the basis of consistency and compatibility. Opportunities for using the Health Network are being explored to increase accountability and improve program efficiencies in the Special Drugs Program.



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# Ministry of Health: Independent Health Facilities — 3.14

## BACKGROUND

The *Independent Health Facilities Act* specifies the licensing, funding and quality assurance requirements of facilities providing medical procedures traditionally performed in public hospitals. These facilities function in a manner similar to hospital out-patient clinics.

The Act was originally intended to license ambulatory surgical centres performing procedures such as cataract surgery and abortions. However, subsequent amendments have broadened its licensing provisions to include facilities offering diagnostic services such as x-rays and ultrasound.

The Act provides the authority for conducting inspections of licensed independent health facilities and for assessing the quality of services delivered. The College of Physicians and Surgeons of Ontario has been assigned the responsibility for developing standards of practice and administering the quality assurance and assessment program.

In 1996 we assessed whether the Ministry had adequate procedures in place to:

- ensure compliance with the legislative requirements for the licensing, funding and monitoring of independent health facilities; and
- measure and report on the effectiveness of the Independent Health Facilities program.

## CURRENT STATUS OF RECOMMENDATIONS

Recommendations relating to the following areas of our 1996 report have been substantially implemented: Quality Assessment Process; Assessment Tracking Systems; and Timeliness of Assessments.

With respect to our other recommendations, the status of the actions taken is as follows:

### FACILITY FUNDING

#### REASONABLENESS OF FACILITY FEES

##### Recommendation

*To ensure the reasonableness of facility fees and any proposed thresholds, the Ministry should study the relationship between the volume of services provided and the costs of providing those services.*

#### NON-LICENSED TECHNICAL SERVICES

##### Recommendation

*To ensure that the quality of care provided to patients is adequate, the Ministry should develop specific criteria for determining which technical services and procedures should be licensed under the Independent Health Facilities Act (IHFA). These criteria should be*

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*used to review all technical services currently provided by physicians to determine which procedures should be subject to the quality assurance program of the College of Physicians and Surgeons.*

In its 1996-97 *Annual Report*, the Standing Committee on Public Accounts recommended that:

*Any expansion of the technical services and procedures licensed under the IHFA should use the criteria developed by the joint Ministry-College of Physicians and Surgeons committee.*

### **Current Status**

Criteria have been developed in consultation with the College of Physicians and Surgeons of Ontario, to assist the Ministry in analyzing which additional services should be included under the *IHFA*. Criteria address both utilization and quality assurance issues. These will be applied first to pulmonary function and cardiac tests that are currently excluded from the *IHFA*.

The Ministry has accepted the recommendations of the Physician Services Committee, established under the Ministry's agreement with the Ontario Medical Association, that the *IHFA* be extended to sleep studies testing based on utilization factors alone. Other areas will be selected for inclusion, taking into consideration matters such as the potential risk to patients, rapid utilization or cost expansion, and rapid change in technology or delivery methods.

## **EVALUATION OF ASSESSMENT RESULTS - ASSESSMENT METHODOLOGY**

### **Recommendation**

*To minimize the risk of not detecting potentially serious health and safety issues, the Ministry should ensure that the sampling guidelines of the College of Physicians and Surgeons consider the time period covered by the assessment, the volume of services provided by the facility and the number of specialties practised at the facility. The justification for not following these guidelines should be documented.*

### **Current Status**

The Ministry and the College of Physicians and Surgeons of Ontario have developed a new formula. This formula takes into account the number of services performed per week, the different services provided and establishes a maximum and minimum number of records for each licensed category that must be reviewed. Assessors are encouraged to review more charts than the maximum if they feel that the clinical quality of the service is in question.

The Ministry and the College of Physicians and Surgeons of Ontario are reviewing a methodology to test this formula to determine its appropriateness, practicality and usefulness.

## **EVALUATION OF ASSESSMENT RESULTS - CLARITY OF CONCLUSIONS**

### **Recommendation**

*To enable the Ministry to take appropriate corrective action, the Ministry should work with the College of Physicians and Surgeons to ensure assessment reports contain consistently clear conclusions on whether the Clinical Practice Parameters and Facility Standards have been met.*

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## Current Status

The Ministry and the College of Physicians and Surgeons of Ontario continue to review ongoing processes and resolve operational issues. The Management Working Group examines questions arising from the Registrar's letters and assessment reports to ensure that conclusions are clear, and that the wording is consistent and precise in order to satisfy legal requirements and ensure that the Ministry's enforcement actions are effective. Other working groups are examining issues around information systems, budget and legal issues.

# Ministry of Health: Whitby Mental Health Centre — 3.15

## BACKGROUND

The Whitby Mental Health Centre is a psychiatric hospital operated by the Ministry of Health's Institutional Health and Community Services Group. The Centre's goal is to provide "assessment, consultation, treatment and rehabilitation to individuals suffering from serious mental illness, to achieve the earliest successful community reintegration at the most independent level."

The Centre's operations are governed primarily by the *Mental Health Act*, the *Mental Hospitals Act* and the *Consent to Treatment Act*.

In 1996 we assessed whether:

- the Centre's goal was clearly defined and whether performance was monitored and evaluated, and the results reported;
- mechanisms were in place to monitor whether applicable legislation, policies and procedures were being followed for the admission, treatment and discharge of patients; and
- resources were being managed with due regard for economy and efficiency.

## CURRENT STATUS OF RECOMMENDATIONS

Recommendations relating to the following areas of our 1996 report have been substantially implemented: Access to Centre Services; Evaluation of Patient Services; Consent to Treatment; and Patient Restraints.

With respect to our other recommendation, the status of the action taken is as follows:

### ACCOMMODATION COPAYMENTS FROM PATIENTS

#### Recommendation

*To comply with the Mental Hospitals Act and the Health Insurance Act, and to ensure equity with chronic and long-term care facilities, the Ministry should reconsider the decision to indefinitely postpone charging financially capable patients for their accommodation at provincial psychiatric hospitals.*

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In its 1996-1997 *Annual Report*, the Standing Committee on Public Accounts also recommended:

The Ministry should charge financially capable patients a copayment for accommodation.

### **Current Status**

The Ministry has indicated that this recommendation has system-wide implications and would require implementation on a ministry-wide level. Also, recommendations from the Health Services Restructuring Committee and potential changes to the operational status of provincial psychiatric hospitals will have an impact on this policy decision.

# 4.00

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## **Ministry of Labour: Occupational Health and Safety Program — 3.16**

### **BACKGROUND**

The objective of the Occupational Health and Safety Program is to advance safe workplace practices in order to reduce workplace injuries, illnesses and fatalities. The Program operates under the authority of the *Occupational Health and Safety Act* and Regulations. The legislation covers most workplaces in Ontario, and the Ministry estimated that in 1995 about 300,000 workplaces and 4.6 million workers were covered by the Act.

We assessed whether the Ministry had adequate procedures in place to measure and report on program effectiveness and to administer and enforce the Act and Regulations economically and efficiently.

### **CURRENT STATUS OF RECOMMENDATIONS**

The Ministry has implemented or commenced action on all of the recommendations in our 1996 *Annual Report*. Recommendations relating to the following areas have been substantially implemented.

- Measuring and Reporting on Effectiveness; and
- Administering and Enforcing the Act and Regulations: Timeliness of Regulation Development; and Enforcement—Prioritizing Workplace Inspections, Outstanding Orders, Monitoring Field Visits and Training for Inspectors.

With respect to our remaining recommendation, the status of action taken is as follows:



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## ENFORCEMENT - WORK REFUSALS

### Recommendation

*The Ministry should develop alternatives for dealing with work refusals to reduce the need for inspectors to investigate minor workplace health and safety hazards. Such alternatives could include a recommendation for revisions to the current legislation.*

### Current Status

In February 1997, the Ministry released a discussion paper on a review of the *Occupational Health and Safety Act*. The paper highlighted the concerns with the present two-stage work refusal process and asked for input on possible changes as well as how to reinforce and integrate the workers' right to refuse unsafe work into the internal responsibility system. Three specific questions were asked:

What changes, if any, are required to:

- make the right to refuse provisions easier to understand and apply;
- ensure the right to refuse plays an effective role in the internal responsibility system; and
- ensure the right to refuse is used responsibly by the workplace parties to prevent injuries and illness.

At the time of our follow-up, the Ministry was reviewing the public input and anticipated the Minister would consult with other Cabinet members regarding changes to the Act.

## Ontario Realty Corporation: Property Management Division — 3.17

### BACKGROUND

Established under the *Capital Investments Plan Act*, the mandate of the Ontario Realty Corporation (ORC) is to provide the Government of Ontario with financing and services related to real property. The largest division within ORC is the Property Management Division (PMD); it is responsible for management and accommodation for most of the Ontario government's 80,000 employees. Its portfolio consists of 5,200 buildings with total space of approximately 47 million square feet.

In our 1996 audit, we assessed whether the PMD had adequate procedures in place to ensure that the real property it was responsible for was being managed with due regard for economy and efficiency and that the government's real property assets were being adequately maintained.

We found that improvements were required in PMD's management information systems to provide management with information on a building-by-building basis, and to ensure the optimal utilization of accommodation across the government. As a result, we made a number of specific recommendations for improvement.

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## CURRENT STATUS OF RECOMMENDATIONS

ORC has taken some action on all of the recommendations made in our 1996 report. Overall, the transition to an independent service agency has been slower than expected, resulting in delays in issuing requests for proposals for Alternative Service Delivery and Information Systems.

We observed the ORC had substantially implemented the recommendations relating to the following areas:

- Accommodation Charge-Back System; and
- Acquisition of Contract Services—Change Orders on Construction Projects.

The status of the recommendations in the process of being implemented were as follows:

### PREVENTIVE MAINTENANCE

#### Recommendation

*To ensure that real property assets are managed for maximum long-term economic advantage, the Property Management Division should monitor and analyze the long-term impact of reduced maintenance funding on repair and operating costs, tenant satisfaction and the service life of the buildings in its portfolio.*

#### Current Status

ORC has completed its identification of core buildings and has developed a portfolio plan for 61 communities. The core buildings were also addressed in ORC's capital repair plan which states that funds will be allocated to the buildings that will remain core buildings, in addition to health and safety issues being addressed in all buildings. One of ORC's key strategies was to build into service contracts with private sector service providers the requirement to develop long-term repair plans. ORC expects to have service providers in place by the spring of 1999; however, the Alternative Service Delivery initiatives have been stalled by union grievances.

### INFORMATION FOR DECISION MAKING

#### MEASURING AND REPORTING ON PERFORMANCE

##### Recommendation

*The Property Management Division should finalize, implement and monitor appropriate performance indicators and report on its success in contributing to the achievement of the Ontario Realty Corporations's overall business objectives.*

##### Current Status

While property management reports regularly to management and to ORC's board of directors on key performance measures, the implementation of the new software outlined below will improve the measuring and reporting of performance.

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## NEED FOR AN INTEGRATED SYSTEM

### Recommendation

*To facilitate the monitoring of financial and operating data on a building-by-building basis and to meet the long-term strategic information needs of management, the Property Management Division should implement an integrated management information system if the direct delivery of property management services continues to be part of its mandate.*

### Current Status

A new system was selected in March 1998, having an estimated cost of \$3.5 million. It is to be based on purchased software and is intended to be a fully integrated real estate and financial management system. The project is nearing completion of Phase 1 of three phases.

## PROPERTY INFORMATION MANAGEMENT SYSTEM

### Recommendation

*To ensure that information for decision makers is complete and up to date, the Property Management Division should formalize accountability for the verification of current data and the maintenance of complete and accurate information in the Property Management Information System.*

### Current Status

The purchased system will replace the Property Management Information System. Until this system is in place, ORC has implemented a number of stopgap measures to address the weaknesses noted in our report. The Charging for Accommodation initiative, whereby tenant ministries are charged for the accommodation they utilize, has been a driving force in ensuring that the data is complete and accurate. Ministries will not agree to pay for space they do not use.

# Ontario Transportation Capital Corporation: Highway 407 Central Project — 3.18

## BACKGROUND

Established under the *Capital Investments Plan Act*, the Ontario Transportation Capital Corporation (OTCC) has responsibility for implementing and managing the Highway 407 Central Project. Previous to the creation of the OTCC in 1994, the Ministry of Transportation was responsible for the Project. Highway 407 Central is a multi-lane, fully electronic toll highway extending 69 kilometres across the top of Metropolitan Toronto.

In our 1996 audit report, we assessed whether a fair and competitive selection process was followed and adequately documented in awarding the major Highway 407 contracts and whether there was due regard for economy and efficiency in the planning, development and implementation of the Highway 407 Central project

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Our recommendations dealt with areas which should be considered when future transportation projects of a similar nature are undertaken either by OTCC or the Ministry of Transportation. The recommendations covered the following areas: the minimum number of bidders required to ensure an adequate basis for decision making; the level of specific design criteria to be provided to bidders; the clarity of the request for proposal in conveying to bidders the Ministry's intentions and expectations; the treatment of project components that become unbundled; the benefits of value engineering to other road projects; and the level of warranty coverage.

## **CURRENT STATUS OF RECOMMENDATIONS**

Neither OTCC nor the Ministry of Transportation has undertaken any projects similar to the Highway 407 Central Project in size, nature or scope subsequent to the issuance of our 1996 report. Consequently, there was no opportunity to implement our recommendations.

**4.00**

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## CHAPTER FIVE

# Public Accounts of the Province

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## 5.00 INTRODUCTION

The Public Accounts for each fiscal year ending March 31 are prepared under the direction of the Minister of Finance as required by the *Ministry of Treasury and Economics Act*. The Act requires the Public Accounts to be delivered to the Lieutenant Governor in Council for presentation to the Assembly not later than the tenth day of the first session held in the following calendar year. However, the *Standing Orders of the Legislative Assembly* call for the tabling of all statutory reports within six months of the close of the reporting period unless reasons for the delay are given to the House. The *1997-1998 Public Accounts of Ontario* were tabled on September 28, 1998.

The financial statements of the province are the responsibility of the Government of Ontario. This responsibility encompasses ensuring the integrity and fairness of the information presented in the statements, including the many amounts which are based on estimates and judgment. The government is also responsible for ensuring that an established system of control and supporting procedures is maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Provincial Auditor audits and expresses an opinion on the financial statements of the province. This opinion is intended to provide reasonable assurance that the financial statements are free of material misstatement. The financial statements, along with the Provincial Auditor's opinion on them, are provided in a separate volume of the Public Accounts. In addition to the financial statements, the Public Accounts include the following three supplementary volumes.

- Volume 1 contains the Consolidated Revenue Fund schedules and ministry statements. The Consolidated Revenue Fund reflects the financial activities of the government's ministries on a modified cash basis.
- Volume 2 contains the financial statements of significant provincial Crown corporations, boards and commissions which are part of the government's reporting entity and other miscellaneous financial statements.
- Volume 3 contains the details of expenditure and the Ontario Public Service senior salary disclosure.

The Provincial Auditor reviews the information in these three supplementary volumes for consistency with information presented in the financial statements.

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# THE PROVINCE'S 1997/98 FINANCIAL STATEMENTS

The *Audit Act* requires that in my Annual Report I report on the results of my examination of the province's financial statements as reported in the Public Accounts. I am pleased to report that my Auditor's Report to the Legislative Assembly on the financial statements for the fiscal year ended March 31, 1998 is clear of any qualifications or reservations and reads as follows:

*To the Legislative Assembly of the Province of Ontario*

*I have audited the statement of financial position of the Province of Ontario as at March 31, 1998 and the statements of operations and accumulated deficit and of changes in financial position for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.*

*I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.*

*In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with accounting principles recommended for governments by The Canadian Institute of Chartered Accountants. As required by section 12 of the Audit Act, I also report that, in my opinion, these accounting principles have been applied, in all material respects, on a basis consistent with that of the preceding year.*

[signed]

Toronto, Ontario  
August 14, 1998

Erik Peters, FCA  
Provincial Auditor

## PROVINCE OF ONTARIO ANNUAL REPORT

Since 1996, the Province of Ontario has published an annual report together with the Public Accounts. These annual reports go a long way toward enhancing the fiscal accountability of the government to both the Legislative Assembly and the public.

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## ACCOUNTING PRINCIPLES RECOMMENDED FOR GOVERNMENTS

The financial statements of the province include the Consolidated Revenue Fund and organizations owned or controlled by the government, and have been prepared in accordance with accounting principles recommended for governments by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the *CICA Handbook* for private and public corporations in Canada. PSAAB recommendations are contained in the CICA's *Public Sector Accounting and Auditing Handbook*. They represent the consensus of senior government financial officials, legislative auditors and other experts in public sector accounting across Canada on minimum requirements for financial statement accounting and reporting practices for governments.

In applying PSAAB standards, the province's accounting policies are similar to those promulgated in the *CICA Handbook* for the private sector with the following two key exceptions:

- Crown agencies that generate enough revenues from non-government sources to be self-sufficient are classified as government business enterprises and are consolidated on a modified equity basis as opposed to a line-by-line basis as would be the case in the private sector. Examples of such agencies include the Ontario Lottery Corporation and the Liquor Control Board of Ontario. Agencies defined as government service organizations, which are those financially dependent on the government, are consolidated on a line-by-line basis. It should be noted that regardless of the method of consolidation, the net income or deficit of every consolidated agency is appropriately included in the determination of the province's operating results for the year.
- Investments in capital assets by government ministries and government service organizations are recorded as expenditures in the year incurred rather than as assets and amortized to operations over their estimated useful lives.

Because of their unique nature, two of the largest organizations of the province, the Workplace Safety & Insurance Board and Ontario Hydro, warrant special mention.

Under the *Workers' Compensation Act*, funding of the Workplace Safety & Insurance Board's liabilities, including its large unfunded workers' benefits liability, is a future financial obligation of private-sector employers and not of the province. The Board has therefore been classified as a trust fund and details are provided in a note to the financial statements.

By virtue of the *Power Corporation Act*, Ontario Hydro's earnings and net assets are neither intended nor available for distribution to the province. Accordingly, Ontario Hydro is not consolidated in the financial statements. However, the province's guarantee of Ontario Hydro's debt, and certain aspects of Ontario Hydro's operations and the proposed restructuring of Ontario Hydro are disclosed in the notes to the financial statements. Further discussion of Ontario Hydro issues follows later in this chapter.

## RESTRUCTURING CHARGES

In each of the last three fiscal years, the government has provided for significant restructuring charges in its financial statements. These amounts totalled \$854 million in 1995/96, \$2.2 billion



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in 1996/97 and \$1.6 billion in 1997/98. Of the almost \$4.7 billion in total restructuring charges, \$3.1 billion had yet to be paid as at March 31, 1998.

These items have been provided for on the basis of two Emerging Issues Committee (EIC) Abstracts. The EIC is a committee of the CICA that reviews new accounting issues, reaches a consensus, and offers guidance as to the appropriate accounting practice to follow. The Ontario Financial Review Commission recommended that EIC Abstracts be considered in the preparation of the province's financial statements.

EIC-23 provides guidance on charging special termination benefits to current operations. It deals with such specific items as severance payments, enhanced pension benefits and cash settlements, and recommends that such benefits should be charged as an expense when management commits to a staff reduction plan.

EIC-60 provides guidance on charging costs to exit an activity. It deals with such costs as special termination benefits, disposal of a portion of a business segment, facility consolidation and relocations, and retraining. The Abstract states that only exit costs that do not benefit future operations are to be expensed when management commits to an exit plan. The Abstract therefore also implies that costs that do benefit future operations are to be recorded when incurred.

Each year we have reviewed the restructuring charges against the criteria set out in EIC-23 and EIC-60 to ensure they are appropriate to be recorded as expenditures. In this regard it should be noted that the *1998 Ontario Budget* indicated the government's plans to charge \$3.2 billion in restructuring and other charges against the 1997/98 deficit. However, after review of the proposed charges by our Office with Ministry of Finance officials, the actual expenditures reflected in the audited financial statements were reduced to \$1.6 billion. Ministry of Finance officials have agreed to more effective pre-budget consultation with our Office in future on accounting matters, so that accounting differences, such as the ones contributing to this \$1.6 billion reduction, can be minimized.

## **NEW CICA STANDARDS**

The CICA attempts to foster improved financial and performance information by continuously improving its existing recommendations and by developing new recommendations to deal with emerging accounting and auditing issues. There are two current projects at various stages of completion which, in our view, are particularly pertinent to the province's financial statements.

## **TANGIBLE CAPITAL ASSETS**

Currently, Ontario ministries and government service organizations expense the full cost of capital assets in the year of purchase or construction. This is different than the practice followed in the private sector where capital assets are recorded on the balance sheet and amortized to operations over their estimated useful lives. In June 1997, PSAAB approved a new set of recommendations setting out rules for the recognition, measurement, amortization and presentation of government capital assets. Among other things, the standard calls for a new statement of tangible capital assets to be included as part of the province's financial statements.

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The Ministry of Finance is actively considering the future implementation of these recommendations as part of the new integrated financial information system project; however, little progress has yet been made. There is little doubt that instituting a system to properly account for Ontario's significant capital investments represents a challenge. However, we believe that the enhanced value of the resulting financial information for both decision makers and stakeholders justifies the effort and resources required.

We look forward to consultation on this matter to assist in ensuring that existence, ownership, auditability and valuation issues regarding these assets are resolved, that value for money is obtained, and that cost-effective business practices, systems and procedures are in place to manage, control and account for these assets.

## CASH FLOW STATEMENT

In June of 1998, the CICA's Accounting Standards Board issued a new standard on cash flow statements. The standard calls for cash flows to be classified by operating, investing and financing activities, sets out the components which may be included among cash and cash equivalents, and excludes from the statement investing and financing transactions that do not require the use of cash or cash equivalents. Criteria are also provided for reporting cash flows on a net basis.

We support the standard. Its recommendations are effective for fiscal years beginning after July 31, 1998, and the Ministry of Finance has indicated that it will consider implementing these recommendations in next year's financial statements.

## OTHER RECOMMENDATIONS FOR IMPROVEMENT

Although the audit of the province's financial statements was not designed to identify all weaknesses in internal controls, nor to provide assurances on financial systems and procedures as such, we noted a number of areas during the audit where we believed improvements could be made. While none of these matters affects the fairness of the financial statements of the province, they will be covered, along with accompanying recommendations for improvement, in a management letter to the Ministry of Finance.

## ONTARIO HYDRO

Ontario Hydro is the largest agency in the province. Currently operating under the authority of the *Power Corporation Act*, Ontario Hydro has broad powers to generate, supply, deliver and regulate electric power at cost throughout Ontario. Ontario Hydro reports to the Legislature through the Minister of Energy, Science and Technology.

The *1997-1998 Public Accounts of Ontario* indicate that:

*As at December 31, 1997, [Ontario] Hydro's financial statements reported assets of \$39 billion and revenues of \$8.9 billion for the fiscal year. Hydro reported a net loss of \$6.3 billion and an accumulated deficit of \$4.5 billion.*

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*Hydro's net loss resulted primarily from \$6.6 billion in corporate write-offs. These write-offs consisted primarily of future costs associated with improving nuclear performance and other related costs such as replacement energy and interest.*

## **SOUND INFORMATION NEEDED FOR DECISION MAKERS**

With the significant restructuring of Ontario Hydro, as contemplated in the proposed *Energy Competition Act, 1998*, sound information about Ontario Hydro's operating results and potential stranded debt is essential for legislators. Specifically:

- Any debt that Ontario Hydro could not service in a competitive market is said to be stranded. The government has acknowledged that the risk to the government and the taxpayer associated with the province's guarantee of Ontario Hydro's debt, which totals \$27.8 billion, has therefore increased. However, an up-to-date estimate of the amount of stranded debt, estimated in 1996 at \$16 billion, is not yet available pending completion of the valuation work being conducted by the government, its advisors and Ontario Hydro.
- The proposed restructuring of Ontario Hydro may have significant implications for the province's future financial statements. If the *Energy Competition Act, 1998* passes in its current form, the annual profit or loss of Ontario Hydro's successor electricity companies would likely be included in the calculation of the province's annual deficit or surplus, and their assets and liabilities would also be included in the financial position of the province.
- Additionally, legislators need to understand Ontario Hydro's operating results, and particularly the impact of the provision in 1997 of \$6.4 billion in expected future costs on its operating results for the fiscal years 1998-2001.

## **RISK UNDER PROVINCIAL GUARANTEE OF ONTARIO HYDRO'S DEBT**

At March 31, 1998, the province had guaranteed debentures/bonds and notes of Ontario Hydro totalling \$27.8 billion. Ontario Hydro recognizes that its existing debt load is too great and that it is over-leveraged to compete in a future restructured electricity market.

In November 1997 the government released a White Paper "*Direction for Change: Charting a Course for Competitive Electricity and Jobs in Ontario.*" The White Paper states that in the absence of special provisions, open access in Ontario's electricity market could increase the risk to the government and the taxpayer associated with the provincial guarantee of Ontario Hydro's debt, due to the existence of potentially stranded debt. In the White Paper, the government defines stranded debt as any debt that Ontario Hydro could not service as a commercial entity in a competitive environment.

The government has developed a six-step plan to deal with the stranded debt problem. It calls for:

- efficient operation of the new companies to achieve cost savings;
- exploring new partnership opportunities with the private sector and local distribution utilities;
- dedicating all payments in lieu of corporate income and capital taxes by the new restructured corporations and local distribution utilities to paying down the stranded debt;
- phasing out the provincial guarantee on new debt by the year 2000;



- if necessary, establishing transition charges including possible direct charges to electricity customers; and
- establishing commercially acceptable capital structures for the new commercial companies.

In its 1997 *Annual Report* Ontario Hydro noted that in 1996 it had adopted a \$16 billion estimate of potentially stranded debt for strategic discussion purposes and that the calculation of stranded debt involves many variables and is highly sensitive to changes in assumptions, including those about future electricity sales. In its 1997 *Annual Report*, Ontario Hydro further stated that if it is financially restructured prior to the year 2001 and ceases to operate as a rate-regulated monopoly, any outstanding provision for future costs on the balance sheet at that time will be factored into the calculation of stranded debt. The government and its advisors are working with Ontario Hydro to develop a current estimate of potentially stranded debt. This also involves establishing the value and capital structure of the successor companies in a competitive environment. This exercise is expected to be completed in fall 1998.

The government has indicated that the expected introduction of competition into the electricity marketplace could increase the government's risk of making payments under its guarantee of Ontario Hydro's \$27.8 billion debt. Therefore, the extent of the risk to the government of having to make such payments remains increased and uncertain.

## POSSIBLE INCLUSION OF ONTARIO HYDRO IN PROVINCE'S FUTURE FINANCIAL STATEMENTS

Historically, Ontario Hydro has not been included in the province's financial statements for two key reasons:

- Ontario Hydro's mandate under the *Power Corporation Act* is to generate and sell power at cost. There is no mechanism for distribution of any of its net income or assets to the government.
- Under the *Power Corporation Act*, ownership of Ontario Hydro is murky. The Ontario Financial Review Commission had also struggled with this issue and recommended that ownership of Ontario Hydro be clarified.

On June 9, 1998, the *Energy Competition Act, 1998* was tabled, which dealt with the restructuring of the electricity system in Ontario. Subject to approval by the Legislature, the Act would transform Ontario Hydro's historic electricity monopoly into a competitive market and reorganize Ontario Hydro into several separate corporations. If the Act passes in its current form, the above reasons for excluding Ontario Hydro's successor companies from inclusion in the province's financial statements would likely no longer be valid.

Specifically, the Ontario government will be the sole shareholder of the Ontario Electric Services Corporation and the Ontario Electricity Generation Corporation. The Act sets out mechanisms for the payment of dividends and payments in lieu of taxes from these corporations. The new Ontario Hydro Financial Corporation, the debt-holding company, is designated as a Crown agent "for all purposes," and would be subject to significant government control in carrying out its role of servicing and retiring Ontario Hydro's debt.



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Inclusion of Ontario Hydro's successor companies in the province's financial statements would mean that their annual operating results would be reflected in the government's annual deficit or surplus, and the assets and liabilities of these successor companies would be included in the province's statement of financial position.

## FUTURE COSTS CHARGED AGAINST 1997 OPERATIONS

Ontario Hydro's Board of Directors, citing its rate-setting authority, approved the charging of a \$6.6 billion write-off to 1997 operations including \$6.4 billion of future expenses expected to be incurred in the 1998-2001 period. Ontario Hydro's rationale for providing for these expected future costs in 1997 was that since it had decided, for rate-setting purposes, that these costs would not be recovered from future electricity rates, they should be immediately written off. By providing for these future costs in 1997, Ontario Hydro forecast net income of \$640 million in 1998, \$750 million in 1999 and \$645 million in the year 2000. The operating losses without the pre-recorded future expenses are illustrated in the following table:

	(\$ Millions)		
	1998	1999	2000
Net income forecast in Ontario Hydro's 1997 Annual Report*	640	750	645
Less future expenses, pre-recorded against 1997 results	(1,765)	(1,810)	(1,540)
Operating loss without pre-recorded future expenses	(1,125)	(1,060)	(895)

\* No net income forecast for 2001 was made by Ontario Hydro in its 1997 Annual Report.

Source: Developed from Ontario Hydro's 1997 Annual Report

Under the *Power Corporation Act*, Ontario Hydro has the authority to determine what costs are to be included in electricity rates. However, the Act is silent on how costs are to be treated for financial statement purposes. Ontario Hydro has historically "lock-stepped" its financial statement accounting with its treatment of costs for rate-setting purposes.

The principal reason cited by Ontario Hydro for charging \$6.4 billion in future year costs to 1997 was the statutory requirement to avoid continued income statement recognition of future year losses. As the above table shows, if the future costs had not been charged to 1997 income, Ontario Hydro's financial projections would have indicated significant losses in the fiscal years ending 1998 through 2000.

While acknowledging that charging future costs to current operations was not in accordance with generally accepted accounting principles for business enterprises, Ontario Hydro concluded that this accounting treatment was acceptable for enterprises operating in a rate-regulated environment. Ontario Hydro's external auditors added a fourth paragraph to their 1997 Auditor's Report to advise readers that Ontario Hydro's accounting differed from that used by enterprises that are not rate-regulated.

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Ontario Hydro justified its decision to provide for future costs in its *1997 Annual Report* by stating that these “costs will not be recovered through rates and represent a loss which can be provided for in 1997.” However, with respect to costs associated with the nuclear asset optimization plan (NAOP) amounting to \$4.9 billion, Ontario Hydro’s *1997 Annual Report* stated that “current projections indicate that these expenditures will be recovered in future years, when the nuclear units are returned to optimal levels of operational efficiency.” In connection with work we conducted under section 9(3) of the *Audit Act*, we noted that Ontario Hydro’s business plans and cash flow projections supported the recovery of these costs in future years.

In its quarterly report for the nine months ended September 30, 1997, Ontario Hydro discussed the possible accounting treatment that would be accorded the nuclear asset optimization plan costs as follows:

*In a rate-regulated environment, GAAP [generally accepted accounting principles] would permit the deferral and amortization of such expenditures provided there was a reasonable assurance of recovery through future sales revenues or through alternative cash flows such as from stranded debt recovery mechanisms.*

The quarterly report indicated that a rate ruling by the Board of Directors would be required to defer NAOP-related costs for recovery in future years. The report noted that once the nuclear units were returned to optimal levels of operational efficiency, projections were that NAOP-related costs would be recovered. The report indicated the appropriate accounting treatment would be determined in the fourth quarter.

We concur that deferring NAOP-related costs that are expected to be recovered in future years and amortizing them to operations would have reflected an appropriate matching of revenues with expenditures. Alternatively, in future years, if it were determined that certain costs would not be recovered, expensing the costs at that time would also have been acceptable.

Another alternative to the write-off in 1997 of these future costs would have been to write down the appropriate assets to reflect the deterioration of their values necessitating the NAOP expenditures. This alternative was not chosen due, in part, we were informed, to the difficulty of specifically identifying the assets requiring write down. If the amount of the asset write-down had approximated \$6.4 billion, the net effect of this alternative on Ontario Hydro’s 1997 operating results and net asset position would have been similar.

### **NATURE OF FUTURE COSTS CHARGED**

Given the impact of the \$6.6 billion write-off on Ontario Hydro’s operating results for 1997 and the next four fiscal years, we believe legislators need full information on the nature of this write-off. For instance:

- \$2.3 billion was included in the NAOP provision related to the expected incremental cost of using replacement fossil fuels to generate electricity during the years 1998 to 2001 when certain of the nuclear plants are under repair.
- \$1.8 billion was included in the NAOP provision for operations, maintenance and administrative expenses to be incurred in the years 1998 to 2001.

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- \$803 million was also included in the NAOP provision as future interest costs that could have been saved had Ontario Hydro been able to use its surplus cash over the next few years to pay down debt rather than investing in restoring nuclear operating excellence.
  - Other future costs not related to NAOP included in the write-off were: future costs of remedial work on transmission and distribution assets (\$340 million); future environmental costs related to contaminated lands and PCB phase-out (\$185 million); year 2000 information technology costs (\$80 million); costs related to the 1998 ice storm in Eastern Ontario (\$50 million); and other future miscellaneous costs (\$175 million) such as contingent information technology expenditures.

## OTHER MATTERS

The Provincial Auditor is required under section 12 of the *Audit Act* to report on any Special Warrants and Treasury Board Orders issued during the year. Additionally, under section 91 of the *Legislative Assembly Act*, the Provincial Auditor is required to report on any transfers of money between Items within the same Vote in the *Estimates* of the Office of the Legislative Assembly.

## LEGISLATIVE APPROVAL OF GOVERNMENT EXPENDITURES

The government tables detailed Expenditure Estimates, outlining each ministry's spending proposals on a program-by-program basis, shortly after presenting its Budget. The Standing Committee on Estimates reviews selected ministry Estimates and presents a report to the Legislature with respect to those ministry Estimates that were reviewed. The Estimates of those ministries that are not selected for review are deemed to be passed by the Committee and reported as such to the Legislature. Orders for Concurrence for each of the Estimates reported on by the Committee are debated in the Legislature for a maximum of six hours and then voted on.

Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving the *Supply Act* which stipulates the amounts that can be spent according to the ministry programs as set out in the Estimates. Once the *Supply Act* is approved, the individual program expenditures are considered Voted Appropriations. The *Supply Act, 1997*, pertaining to the fiscal year ended March 31, 1998, received Royal Assent on December 18, 1997.

Prior to the passage of the *Supply Act*, the Legislature authorizes payments by means of motions for interim supply. For the 1997/98 fiscal year, the time periods covered by the motions for interim supply and the dates that the motions were agreed to by the Legislature were as follows:

- November 1, 1996 to April 30, 1997 — passed October 24, 1996;
- May 1, 1997 to October 31, 1997 — passed April 30, 1997; and
- November 1, 1997 to April 30, 1998 — passed September 23, 1997.

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## SPECIAL WARRANTS

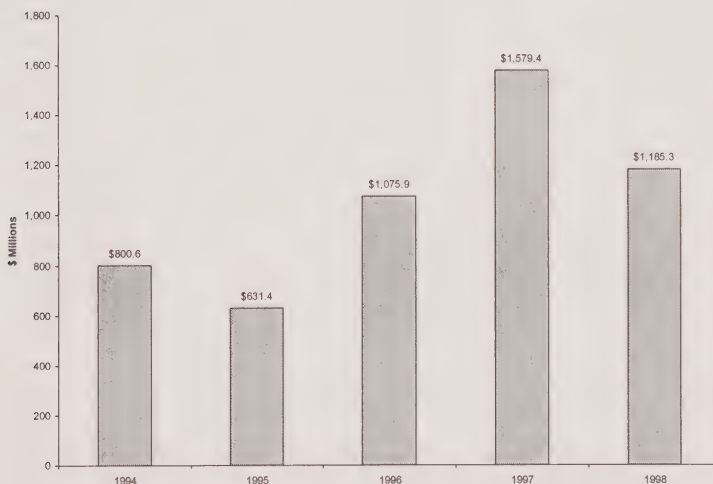
If motions for interim supply cannot be approved because the Legislature is not in session, section 7 of the *Treasury Board Act, 1991* allows the issue of a Special Warrant authorizing the expenditure of money for which there is no appropriation by the Legislature. Special Warrants are authorized by Orders in Council approved by the Lieutenant Governor on the recommendation of the government.

As the three motions of interim supply covered the period from April 1, 1997 to March 31, 1998, no Special Warrants were required during the 1997/98 fiscal year.

## TREASURY BOARD ORDERS

Section 8 of the *Treasury Board Act, 1991* allows the Treasury Board to make an order authorizing payments to supplement the amount of any Voted Appropriation that is insufficient to carry out the purpose for which it was made, provided the amount of the increase is offset by a corresponding reduction of expenditures from other Voted Appropriations not fully spent in the fiscal year. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

The following chart is a summary of the total value of Treasury Board Orders issued for the past five fiscal years:





Treasury Board Orders for the 1997/98 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized \$
May 1997-February 1998	21	217,067,400
March 1998	12	586,453,500
April 1998	12	381,767,000
	45	1,185,287,900

In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders are expected to be listed in *The Ontario Gazette* in October, together with explanatory information. A detailed listing of Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Four of this Report.

## TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of money from one Item of the Estimates of the Office of the Assembly to another Item within the same Vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the Annual Report.

In respect of the 1997/98 Estimates, the following transfers were made within Vote 201:

From:	Item 4	Finance and Administration	\$	2,411,700	
	Item 5	Assembly Services		11,081,600	*
To:	Item 1	Office of the Speaker		10,000	
	Item 2	Office of the Clerk		1,945,500	
	Item 3	Legislative Library		1,917,500	
	Item 6	Sergeant at Arms		9,000,300	*
	Item 11	Restructuring Costs		620,000	

\* principally due to merging Assembly Services with Sergeant at Arms activities

In addition, within Vote 202, \$5,200 was transferred from Item 2 (Commission on Election Finances) to Item 1 (Environmental Commissioner).

## UNCOLLECTABLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order in Council to delete from the accounts any amount due to the Crown which is deemed uncollectable. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

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In the 1997/98 fiscal year, receivables of \$154.2 million due to the Crown from individuals and non-government organizations were written off (in 1996/97 the comparable amount was \$116.5 million). Page 3-101 of Volume 2 of the *1997/98 Public Accounts of Ontario* provides a listing of these write-offs in total by ministry or Crown agency.

Under the accounting policies followed in the audited financial statements of the province, a provision for doubtful accounts is recorded against the accounts receivable balances. Accordingly, most of the \$154.2 million in write-offs had already been provided for in the audited financial statements. However, the actual deletion from the accounts required Order in Council approval.

The major portion of the write-offs related to the following:

- \$44.8 million to write-off a loan receivable from the Ontario Realty Corporation (ORC) to the province relating to land returned from the ORC to the province. As the government does not capitalize its investments in land or other fixed assets, this transaction necessitated a write-off;
- \$42.8 million for uncollectable taxes relating to corporation and retail sales tax receivables;
- \$32.5 million for uncollectable fines, penalties, fees, licences and estreated bail;
- \$13.0 million for uncollectable loans made under the *Development Corporations Act*; and
- \$7.9 million for uncollectable loans made under the Ontario Student Loan program, the Ontario Study Grant Plan and Ontario Special Bursaries.



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## CHAPTER SIX

# The Office of the Provincial Auditor

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### MISSION STATEMENT

Our mission is to report to the Legislative Assembly objective information and recommendations resulting from our independent audits of the government's programs, its Crown agencies and corporations. In doing so, the Office assists the Assembly in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations.

We audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, the financial statements of the province and the accounts of agencies of the Crown. Our responsibilities are set out in the *Audit Act* (Exhibit Six in this Report).

The Office thus fulfils its mission by conducting audits of ministries and agencies and by presenting an Annual Report to the Legislative Assembly. Additionally, the Office may make a special report to the Assembly at any time on any matter that in the opinion of the Provincial Auditor should not be deferred until the Annual Report. We also assist and advise the Standing Committee on Public Accounts in its review of the Public Accounts of the province and the Annual Report of the Provincial Auditor.

### INDEPENDENCE

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant-Governor in Council on the address of the Assembly. This is done after consultation with the Chair of the Standing Committee on Public Accounts. The Provincial Auditor and staff of the Office are independent of the government and its administration. We have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*. Our independence is a safeguard which enables the Office to fulfil its auditing and reporting responsibilities objectively and fairly.

The Board of Internal Economy, an all-party legislative committee independent of the government's administrative process, reviews our budget, which is subsequently laid before the Legislative Assembly. As required by the *Audit Act*, the Office's expenditures relating to the 1997/98 fiscal year have been audited by a firm of chartered accountants appointed by the



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Board and are presented at the end of this chapter. The audited statement of expenditure is submitted annually to the Board and subsequently tabled in the Assembly.

## AUDIT RESPONSIBILITIES

### PRIMARY RESPONSIBILITY

The primary responsibility of the Office is to audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies and legislation.

Our audit responsibilities do not extend to government policy matters. The Office does not audit government policies or information contained in cabinet documents used in policy deliberations or decisions. The government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies and programs through questions during legislative sessions and through reviews of legislation and expenditure estimates.

### ACCOUNTS OF THE PROVINCE AND MINISTRIES

The Provincial Auditor, per subsection 9(1) of the *Audit Act*, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. To this end, the Office carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the province's summary financial statements and carries out cyclical value for money audits in accordance with subsection 12(2) of the *Audit Act*. Exhibit One in this Report lists the value for money audits conducted in 1997/98.

### AGENCIES OF THE CROWN AND CROWN CONTROLLED CORPORATIONS

The Provincial Auditor, per subsection 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit Two, part (i), lists the agencies audited during the 1997/98 audit year. Public accounting firms are currently contracted by the Office to audit the financial statements of several of these agencies on its behalf.

Exhibit Two, part (ii), and Exhibit Three list the agencies of the Crown and Crown controlled corporations audited by public accounting firms during the 1997/98 audit year. Subsection 9(2) of the *Audit Act* requires public accounting firms that are appointed auditors of certain agencies of the Crown to perform their audits under the direction of, and to report to, the Provincial Auditor. Under subsection 9(3) of the Act, public accounting firms auditing Crown controlled corporations are required to deliver a copy of the audited financial statements to the Provincial Auditor, as well as a copy of their findings and recommendations to management (management letter).

### ADDITIONAL RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

During the period of audit activity (October 1997 to September 1998) covered by this Report, the Provincial Auditor was involved in the following two special assignments:

- At the request of the Standing Committee on Public Accounts, the Provincial Auditor undertook a review of the compensation provided to those affected by the ice storm of 1998 in Eastern Ontario. We expect to report to the Committee in October 1998.
- At the request of the Minister of Natural Resources, the Provincial Auditor undertook to report on specific individual concerns expressed by the Fish and Wildlife Advisory Board. We expect to report to the Minister in September 1998.

## AUDIT ACTIVITIES

### TYPES OF AUDITS

Value for money, compliance and attest audits are the three main types of audits carried out by the Office. The Office generally conducts compliance audit work as a component of our value for money and attest audits. In addition, inspection audits of selected grant recipient organizations may be conducted under section 13 of the *Audit Act*. The following are brief descriptions of each of these audit categories.

#### VALUE FOR MONEY

Subsection 12(2) of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard to economy and efficiency, or where appropriate procedures were not in place to measure and report on the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities each year. We have summarized in Chapter Three the conclusions, observations and recommendations arising from the value for money work we performed between October 1997 and September 1998.

It is not part of the Office's mandate to measure, evaluate or report on the effectiveness of programs or to develop performance measures or standards. These functions are the responsibility of the ministry or agency management. The Office is responsible for reporting whether or not ministry or agency management has carried out these functions satisfactorily. Our value for money work deals with the administration of programs by management, including major information systems.

We plan, perform and report our value for money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. These standards require that we employ rigorous processes to maintain the quality, integrity and value of our work for our client, the Legislative Assembly of Ontario. They also require that we clearly explain the nature

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and extent of the assurance provided as a result of our work. Some of these processes and the degree of assurance they enable us to provide are described below.

## **SELECTION OF PROGRAMS AND ACTIVITIES FOR AUDIT**

Major ministry and agency programs and activities are audited at approximately five-year intervals. However, various factors are considered in selecting programs and activities for audit each year. These factors include: the results of previous audits; the total revenues or expenditures at risk; the impact of the program or activity on the public; the inherent risk due to the complexity and diversity of operations; the significance of possible issues that may be identified by an audit; and the costs of performing the audit in relation to the perceived benefits. Possible issues are identified primarily through a preliminary survey of the program or agency.

We also consider the work completed or planned by ministry and agency internal auditors. The relevance, timeliness and breadth of scope of the work done by internal auditors can have a major impact on the timing, frequency and extent of our audits. By having access to internal audit work plans, working papers and reports and by relying, to the extent possible, on internal audit activities, the Office is able to avoid duplication of effort.

## **OBJECTIVES AND ASSURANCE LEVELS**

The objective of our value for money work is to meet the requirements of Section 12(2) of the *Audit Act* to identify and report significant value for money issues. We also include in our report recommendations for improving controls, obtaining better value for money and achieving legislated objectives. Management responses to each of these recommendations are reproduced in the report.

The specific objectives for the work are clearly stated in the “Objective and Scope” section of each report. Our work is designed to allow us to conclude on our stated objectives.

In almost all cases our work is planned and performed to provide a high or audit level of assurance. Audit level assurance is obtained by: interviewing management and analyzing the information they provide; examining and testing systems, procedures and transactions; confirming facts with independent sources; and, where necessary, obtaining expert assistance and advice in highly technical areas.

A “high level of assurance” refers to the highest reasonable level of assurance the Office can provide concerning the subject matter. Absolute assurance that all significant matters have been identified is not attainable for various reasons, including: the use of testing; the inherent limitations of control; the fact that much of the evidence available is persuasive rather than conclusive in nature; and the need to exercise professional judgement.

Infrequently, for reasons such as the nature of the program or activity or the prohibitive cost of providing a high level of assurance, our Office will perform a review rather than an audit. A review provides a moderate level of assurance because it consists primarily of inquiries and discussions with management, analyses of information they provide, and only limited examination and testing of systems, procedures and transactions.

## **CRITERIA**

In accordance with professional standards for assurance engagements, work is planned and performed to provide a conclusion on the objective(s) set for the work. A conclusion is reached



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and observations and recommendations made by evaluating the administration of a program or activity against suitable criteria. Suitable criteria are identified at the planning stage of our audit or review by performing extensive research of sources such as: recognized bodies of experts; applicable laws, regulations and other authorities; other bodies or jurisdictions delivering similar programs and services; management's own policies and procedures; and applicable criteria successfully applied in other audits or reviews.

To further ensure their suitability, the criteria being applied are fully discussed and agreed to with senior management responsible for the program or activity at the planning stage of the audit or review.

### **COMMUNICATION WITH SENIOR MINISTRY OR AGENCY MANAGEMENT**

To help ensure the factual accuracy of our observations and conclusions, staff from our Office maintain ongoing communication with senior management throughout the audit or review. Before beginning the work, office staff meet with them to discuss the objectives and criteria and the focus of our work in general terms. During the audit or review, office staff meet with management to review progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on the preliminary results of the work. A draft report is then prepared and discussed with them. Management provides written responses to our recommendations and these are discussed and incorporated into the final draft report. The Provincial Auditor and senior office staff meet with the deputy minister or agency head to discuss the final draft report and give them an opportunity to finalize the responses. As mentioned above, these responses are provided with the report sections.

### **COMPLIANCE WITH LEGISLATION AND RELATED AUTHORITIES**

Section 12(2) of the *Audit Act* also requires the Office to report observed instances where:

- accounts were not properly kept or public money was not fully accounted for;
- essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized; or
- money was expended other than for the purposes for which it was appropriated.

Accordingly, as part of our value for money work we:

- identify provisions in legislation and authorities that govern the programs or agencies being examined or that their management is responsible for administering; and
- perform such tests and procedures as we deem necessary to obtain reasonable assurance that management has complied with legislation and authorities in all significant respects.

Where the responsibility for monitoring for compliance with certain legislation has been assigned to an independent person or office, such as the Environmental Commissioner in the case of the Environmental Bill of Rights or the Human Rights Commission in the case of the Human Rights Code, we would assess the procedures and actions taken by them only when performing value for money work in the respective organization.



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## ATTEST

Attest (financial) audits are designed to permit the expression of a professional opinion on a set of financial statements in accordance with generally accepted auditing standards. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with appropriate accounting policies. The Office conducts attest audits of the summary financial statements of the province and of various Crown agencies on an annual basis.

## INSPECTION AUDITS OF GRANT RECIPIENT ORGANIZATIONS

Grants to organizations such as hospitals, universities, school boards, municipalities and thousands of smaller organizations amount to approximately 50% of total government expenditures, and are subject to inspection audits. An inspection audit is defined in the *Audit Act* as an examination of accounting records. Although value for money observations may arise as a by-product of such audits, the audits are not value for money oriented because only accounting records can be examined in inspection audits.

The Office may, where circumstances warrant the extension of a ministry or agency audit, conduct inspection audits of grant recipients. In the past, the Office has carried out inspection audits of major recipients of grants, specifically community colleges, universities, hospitals and school boards. However, in recent years, the Office has deferred major inspection audit activity pending consideration of a proposal to amend the *Audit Act* to permit the Office to access all records and information necessary to perform full scope audits, including value for money, of grant recipients. Further details and background on the subject of amendments to the *Audit Act* are provided in Chapter Two in the section entitled *Legislative Proposals to Improve Public Accountability*.

Payments are also made to individuals under a variety of programs, such as the Ontario Health Insurance Plan or the Provincial Allowances and Benefits program. Such individual recipients of government funds are not, and should not be, subject to direct audit by the Provincial Auditor.

## REPORTING ACTIVITIES

### VALUE FOR MONEY AUDITS

Our draft reports and management letters are considered to be an integral part of our audit working papers and, according to section 19 of the *Audit Act*, are not required to be laid before the Assembly or any of its committees.

The Office prepares a preliminary draft report for discussion and factual clearance as each audit or review is completed. The preliminary draft report is discussed with senior ministry or agency officials and revised, as necessary, to reflect the results of the discussion. The resulting draft report with the ministry or agency response included is then reviewed with the appropriate deputy minister or agency head (chair). Following clearance of the preliminary draft report and the ministry or agency response, a final draft report is prepared and issued to the deputy minister or agency head and, where deemed necessary, to the minister. We also provide a copy of all final draft reports to the Secretary of the Management Board of Cabinet.

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These final draft audit reports form the basis for the preparation of our *Annual Report* to the Legislative Assembly.

## AGENCY ATTEST AUDITS

With respect to attest audits of agencies, agency legislation normally stipulates that the Provincial Auditor's reporting responsibilities are to the agency's board and the minister(s) responsible. Also, we provide copies of the audit opinions and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Management Board of Cabinet.

In instances where matters which require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared and discussed with senior management and revised, as necessary, to reflect the results of the discussion. The draft management letter with management's response included is also reviewed with the agency's chief executive officer. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and, if deemed necessary, issued to the agency head. Depending on the significance of the content of the management letter, a copy of it may also be forwarded to the minister and deputy minister of the associated ministry and to the Secretary of the Management Board of Cabinet. Matters of significance contained in the management letter may also be included in the Provincial Auditor's *Annual Report* to the Legislative Assembly.

## SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the *Audit Act*, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. At the conclusion of such work, the Provincial Auditor normally reports to the initiating authority of the assignment.

## ANNUAL REPORT

Section 12(2) of the *Audit Act* specifies the reporting requirements for the *Annual Report*.

Chapter Two of the *Annual Report* contains observations on the subject of improving public sector accountability.

Chapter Three contains the reports resulting from our value for money audits of ministries and agencies conducted during the year.

To ensure that our recommendations receive timely attention, we follow up on the progress of action taken by the ministry or agency to address our audit observations and recommendations and report on their status two years after they were reported. A detailed account of the current status of recommendations made in the *1996 Annual Report* is provided in Chapter Four of this Report.

Chapter Five is devoted to the Provincial Auditor's comments on the audit of the Public Accounts of the Province. The reporting requirements under subsections 12(2)(d) and (e) of the *Audit Act* are also met in this chapter.

In Chapter Six we report on the activities of the Office of the Provincial Auditor and reproduce the Office's externally audited financial statement for the year ended March 31, 1998.

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Chapter Seven provides information on the composition and activities of the Standing Committee on Public Accounts.

## OFFICE ORGANIZATION AND PERSONNEL

The Office organization consists of management teams, each of which is headed by a director responsible for the audits of a sizeable portfolio. Audit managers are assigned to portfolios. The composition of the portfolios attempts to align somewhat related audit entities and to foster expertise in the various areas of audit activity. The Provincial Auditor, the Assistant Provincial Auditor and the portfolio directors make up the Office's Executive Steering Committee (ESC). The executive management of the Office as at September 30, 1998 consisted of:

Erik Peters, FCA	-	Provincial Auditor
Ken Leishman, CA	-	Assistant Provincial Auditor
Jim McCarter, CA	-	Executive Director, Finance, Public Accounts, Management Board Secretariat and Professional Practices Portfolio
Walter Bordne, CA	-	Director, Community and Social Services and Revenue Portfolio
Andrew Cheung, CA	-	Director, Justice and Regulatory Portfolio
Gerard Fitzmaurice, CA	-	Director, Economic Development and Transportation Portfolio
John McDowell, CA	-	Director, Crown Agencies, Corporations, Boards and Commissions Portfolio
Nick Mishchenko, CMA	-	Director, Health Portfolio
Gary Peall, CA	-	Director, Education and Training, and Municipal Affairs and Housing Portfolio

Annemarie Wiebe, the Manager of Human Resources, regularly attends meetings of the ESC to provide advice on matters related to human resources.

The audit managers, together with the members of the ESC, constitute the Office's Resource Planning and Allocation Committee. All audit staff below the level of audit manager are assigned to audits from an audit staff pool.

## CODE OF PROFESSIONAL CONDUCT

The Office has a *Code of Professional Conduct* to encourage staff to maintain high professional standards and ensure a professional work environment. It is intended to be a general statement of philosophy, principles and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence and integrity in their work. The Code provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict-of-interest situations.

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## CANADIAN COUNCIL OF LEGISLATIVE AUDITORS

The 26th annual meeting of the Council of Legislative Auditors was held in Yellowknife, Northwest Territories from August 16 to 18, 1998. This annual gathering, bringing together legislative auditors from the federal government and the provinces, provides a useful forum for sharing ideas and exchanging information important to the work of the legislative auditing community.

The Provincial Auditor and the Assistant Provincial Auditor attended this year's conference, which covered such topics as:

- government accounting standards;
- performance measurement for audit offices;
- public sector accountability; and
- a joint session with the Canadian Council of Public Accounts Committees on the subject of *Governments Moving into the Third Millennium*.

## ACKNOWLEDGMENTS

### EXTERNAL ADVISORY COMMITTEE

The External Advisory Committee periodically reviews the Office's audit approach, analyzes the Office profile and provides advice relating to sensitive audit issues. The Committee meets at the call of the Provincial Auditor.

The Committee's members combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of government. The current members are Messrs. Rendall Dick, LSM; David Knight, FCA; Robert Lord, FCA; Ron Moore, FCA; and David Wilson, FCA.

### AUDITEES AND STAFF

The Provincial Auditor expresses sincere appreciation to the officials of ministries, agencies and other entities for their cooperation in providing his staff with all the information and explanations required during the performance of the Office's audit work.

The Provincial Auditor extends a special appreciation to the staff of the Office for their dedication, competence and the professional manner in which they have carried out their duties.



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## OFFICE EXPENDITURE

The following is the 1998 audited Statement of Expenditure for the Office.

**Office of the Provincial Auditor  
Statement of Expenditure  
For the Year Ended March 31, 1998**

	1998		1997	
	Actual (\$000s)	Estimates (\$000s)	Actual (\$000s)	Estimates (\$000s)
Salaries and wages	4,314	4,838	4,500	4,581
Employee benefits	1,133	1,124	680	678
Transportation and communication	179	154	126	179
Services	1,434	1,386	1,375	1,381
Supplies and equipment	294	73	153	59
Transfer payment - CCAF – FCVI Inc.	50	50	50	50
	7,404	7,625	6,884	6,928
The Audit Act	167	168	138	138
	7,571	7,793	7,022	7,066

*Notes:*

1. Accounting Policy

*The statement of expenditure has been prepared using a modified cash basis of accounting which allows for an additional 30 days to pay for goods and services received during the fiscal year just ended.*

2. Pension Plan

*The Office provides pension benefits for its employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario.*

*The Office's contribution related to the PSPF for the year was \$582,858 (1997 - \$162,892). The increase is due to the termination of the pension holiday provided by the Ontario Public Service Employees' Union Pension Act, 1994.*

3. Public Sector Salary Disclosure Act, 1996

*Section 3(5) of this Act requires disclosure of Ontario public sector employees paid an annual salary in excess of \$100,000 in calendar year 1997. For the Office, this disclosure is as follows:*

**Auditors' Report**

TO THE BOARD OF INTERNAL ECONOMY  
THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1998. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1998 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario  
July 8, 1998

ALLEN & MILES  
CHARTERED ACCOUNTANTS

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		<i>Salary Paid</i>	<i>Taxable Benefits</i>
		\$	\$
<i>Peters, Erik</i>	<i>Provincial Auditor</i>	161,489	5,770
<i>Leishman, Ken</i>	<i>Assistant Provincial Auditor</i>	125,000	311

*These amounts do not represent the actual annual salary rates, since they include payments in 1997 for salary adjustments retroactive to July 1, 1996.*

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## CHAPTER SEVEN

# The Standing Committee on Public Accounts

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7.00

### *APPOINTMENT AND COMPOSITION OF THE COMMITTEE*

The Standing Orders of the Legislature provide for the appointment of an all-party Standing Committee on Public Accounts for each session of the Legislature.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions with the exception of the Chair, whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on May 4, 1998, soon after the commencement of the Second Session of the Thirty-sixth Parliament. The membership of the Committee at June 25, 1998 when the House adjourned for the summer recess was as follows:

Bernard Grandmaître, Chair, Liberal  
Richard Patten, Vice-Chair, Liberal  
Marcel Beaubien, Progressive Conservative  
Bill Grimmett, Progressive Conservative  
Jean-Marc Lalonde, Liberal  
Shelley Martel, New Democrat  
Peter L. Preston, Progressive Conservative  
Joseph N. Tascona, Progressive Conservative  
Terence H. Young, Progressive Conservative

### *ROLE OF THE COMMITTEE*

The Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of government operations; the effectiveness of programs in achieving their objectives; controls over assets, expenditures, and the assessment and collection of revenues; and the reliability and appropriateness of information in the Public Accounts.

In fulfilling this role, the Committee reviews and reports to the Legislature its observations, opinions and recommendations on selected matters in the Annual Report of the Provincial Auditor and the Public Accounts. These documents are deemed to have been permanently referred to the Committee as they become available.



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## PROVINCIAL AUDITOR'S ROLE IN THE PROCESS

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of government programs and financial activities.

Additionally, the Provincial Auditor and senior staff attend committee meetings during the Committee's review of the Annual Report of the Provincial Auditor and the Public Accounts and assist the Committee in planning its agenda.

## COMMITTEE PROCEDURES AND OPERATIONS

### GENERAL

The Committee meets on Thursday mornings when the Legislature is sitting. At times, the Committee also meets during the summer and winter when the Legislature is not sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports.

At meetings dealing with ministry operations, the deputy minister, usually accompanied by senior ministry officials, answers questions raised by committee members. Since the Committee is concerned with administrative rather than policy matters, ministers rarely attend. When the Committee is reviewing Crown agencies, the chief executive officer, usually accompanied by senior agency staff and, at times, the chair of the board, attend the meetings.

### MEETINGS HELD

From October 1997 to September 1998, the Committee met regularly on its designated meeting day when the Legislature was sitting. The Committee's work during this period included:

- reviewing the following subjects from the Provincial Auditor's *1997 Annual Report*:
  - Ministry of the Attorney General — Courts Administration Program
  - Ministry of Community and Social Services — Transfer Payment Agency Accountability and Governance
  - Ministry of Education and Training — Ontario Student Assistance Program
  - Ministry of the Environment — Conservation and Prevention Division
  - Ministry of Finance — 1996/97 Public Accounts of the Province
  - Ministry of Health — Public Health Activity
  - Ministry of Transportation — Commercial Vehicle Safety and Regulation
  - Management Board Secretariat — Central Collection Services;
- discussing Bill 74, *An Act to amend the Audit Act*, which would permit the Provincial Auditor to present to the Speaker up to three additional reports per year, in addition to the Annual Report; and
- organizing the Committee's agenda.

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## REQUESTS FOR SPECIAL AUDITS

On June 4, 1998, the Committee passed the following motion under section 17 of the *Audit Act*:

*That the Standing Committee on Public Accounts resolve that the Provincial Auditor provide a report to the Committee on the compensation provided to those affected by the ice storm of 1998 in Eastern Ontario.*

The Office of the Provincial Auditor has commenced its review of the compensation procedures. At the conclusion of our review, a report will be made to the Standing Committee on Public Accounts.

## COMMITTEE PROCEDURES

The Committee conducts hearings and then reports its comments and recommendations to the Legislature. Committee procedures include the following:

- in-depth briefings and preparation;
- when practical, the inclusion of ministry responses in committee reports; and
- follow-up of committee recommendations.

The Committee also follows up in writing with those ministries and Crown agencies not selected for detailed review by the Committee regarding their plans and timetables for addressing the concerns raised in the Provincial Auditor's *Annual Report*. This process enables each auditee to update the Committee on activities since the completion of the audit, such as any initiatives taken to address the Provincial Auditor's recommendations.

## REPORTS OF THE COMMITTEE

### GENERAL

The Committee issues its reports to the Legislature. These reports contain a précis of the information reviewed by the Committee during its meetings, together with comments and recommendations.

All committee reports are available through the Clerk of the Committee, thus affording public access to full details of committee deliberations.

A report to the Legislature covering the Committee's 1997/98 activities has been prepared.

### FOLLOW-UP OF RECOMMENDATIONS MADE BY THE COMMITTEE

The Clerk of the Committee is responsible for following up on the actions taken by ministries or agencies on the Committee's recommendations. The Office of the Provincial Auditor confers with the Clerk to ascertain the status of the recommendations and, if considered necessary, brings any significant matters in the Provincial Auditor's *Annual Report* to the attention of the Legislature.

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## STATUS OF COMMITTEE RECOMMENDATION RESPECTING AMENDMENTS TO THE AUDIT ACT

Detailed information on this subject and other related matters is contained in Chapter Two of this Report.

### OTHER COMMITTEE ACTIVITIES

#### CANADIAN COUNCIL OF PUBLIC ACCOUNTS COMMITTEES (CCPAC)

The Council consists of delegates of federal, provincial and territorial public accounts committees from across Canada. The Council meets at the same time and place as the annual Council of Legislative Auditors (COLA) to discuss issues of current interest. The nineteenth annual meeting of the Council was held in Yellowknife, Northwest Territories, from August 16 to 18, 1998. The annual CCPAC and COLA meetings also permit the delegations to participate in a joint session to discuss subjects of mutual interest to politicians and legislative auditors. The 1998 joint session with COLA was on the subject of *Governments Moving into the Third Millennium*.

The Vice-Chair and the Clerk of the Standing Committee on Public Accounts represented the province at this year's meeting.



# Exhibits

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## EXHIBIT ONE

# Value for Money Audits and Reviews and Special Audits Conducted in 1997/98

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## *MINISTRY AND AGENCY AUDITS AND REVIEWS*

### **Community and Social Services**

- Business Transformation Project/Common Purpose Procurement
- Ontario Works Program

### **Education and Training**

- Acquisition and Management of Elementary and Secondary School Facilities

### **Finance**

- Land Transfer Tax Program

### **Health**

- Long-Term Care Community Based Services Activity
- Ontario Health Insurance Plan

### **Municipal Affairs and Housing/Ontario Housing Corporation**

- Rent Supplement Programs

### **Natural Resources**

- Financial Controls Review
- Fish and Wildlife Program
- Science and Information Resources Division

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## **Solicitor General and Correctional Services**

- Office of the Fire Marshall
- Ontario Provincial Police

## ***SPECIAL AUDITS***

### **STANDING COMMITTEE ON PUBLIC ACCOUNTS**

#### **Ministry of Municipal Affairs and Housing**

- Report on Compensation Provided to Those Affected by the Ice Storm of 1998 in Eastern Ontario

### **MINISTER OF NATURAL RESOURCES**

#### **Ministry of Natural Resources**

- Report on Fish and Wildlife Special Purpose Account

### **SPECIAL REPORT OF THE PROVINCIAL AUDITOR TO THE LEGISLATIVE ASSEMBLY**

#### **Management Board Secretariat**

- Year 2000: Millennium Bug

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## EXHIBIT TWO

# Agencies of the Crown

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### (I) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY THE PROVINCIAL AUDITOR

AgriCorp

Agricultural Rehabilitation and Development Directorate of Ontario

Algonquin Forestry Authority

Cancer Care Ontario

Centennial Centre of Science and Technology

Commission on Election Finances

Eastern Ontario Development Corporation

Egg Fund Board (December 31), Fund for Egg Producers

*Election Act* - Election Fees and Expenses

Grain Financial Protection Board, Funds for Producers of Grain Corn, Soybeans  
and Canola

Innovation Ontario Corporation

Legal Aid Fund, Law Society of Upper Canada

Liquor Control Board of Ontario

Livestock Financial Protection Board, Fund for Livestock Producers

North Pickering Development Corporation

Northern Ontario Development Corporation

Northern Ontario Heritage Fund Corporation

Office of the Assembly

Office of the Environmental Commissioner

Office of the Information and Privacy Commissioner

Office of the Children's Lawyer

Office of the Ombudsman

Ontario Aerospace Corporation

Ontario Clean Water Agency (December 31)



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Ontario Development Corporation  
Ontario Educational Communications Authority  
Ontario Farm Products Marketing Commission, Fund for Milk and Cream Producers  
Ontario Film Development Corporation  
Ontario Financing Authority  
Ontario Food Terminal Board  
Ontario Heritage Foundation  
Ontario Housing Corporation (December 31)  
Ontario International Trade Corporation  
Ontario Junior Farmer Establishment Loan Corporation  
Ontario Lottery Corporation  
Ontario Northland Transportation Commission (December 31)  
Ontario Place Corporation  
Ontario Racing Commission  
Ontario Realty Corporation  
Ontario Securities Commission  
Ontario Stock Yards Board (June 30)  
Ontario Transportation Capital Corporation  
Pension Commission of Ontario  
Police Complaints Commissioner  
Province of Ontario Council for the Arts  
Provincial Judges Pension Fund, Provincial Judges Pension Board  
Public Guardian and Trustee for the Province of Ontario  
Tobacco Diversification Fund, Tobacco Diversification Committee

## **(II) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY ANOTHER AUDITOR UNDER THE DIRECTION OF THE PROVINCIAL AUDITOR**

Board of Community Mental Health Clinic, Guelph  
Niagara Parks Commission (October 31)  
Ontario Mental Health Foundation  
St. Clair Parkway Commission (December 31)

NOTES:

1. Dates in parentheses indicate fiscal periods ending on a date other than March 31.
2. Changes during the 1997/98 fiscal year:  
*Additions:*
  - Ontario Securities Commission*Deletions:*
  - Alcoholism and Drug Addiction Research Foundation
  - Clarke Institute of Psychiatry
  - Environmental Compensation Corporation
  - Interim Gross Revenue Insurance Plan Program Account
  - Ontario Agricultural Museum
  - Ontario Cancer Institute
  - Public Sector Job Security Fund
3. Inactive agencies as at March 31, 1998:
  - Ontario Telephone Development Corporation

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## EXHIBIT THREE

# Crown Controlled Corporations

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**CORPORATIONS WHOSE ACCOUNTS ARE AUDITED BY AN AUDITOR OTHER THAN THE PROVINCIAL AUDITOR, WITH FULL ACCESS BY THE PROVINCIAL AUDITOR TO AUDIT REPORTS, WORKING PAPERS AND OTHER RELATED DOCUMENTS**

Art Gallery of Ontario Crown Foundation  
Baycrest Hospital Crown Foundation  
Big Thunder Sports Park Ltd.  
Board of Funeral Services  
Brock University Foundation  
Carleton University Foundation  
CIAR Foundation (Canadian Institute for Advanced Research)  
Canadian Opera Company Crown Foundation  
Canadian Stage Company Crown Foundation  
Dairy Farmers of Ontario  
Deposit Insurance Corporation of Ontario  
Education Quality and Accountability Office  
Foundation at Queen's University at Kingston  
Grand River Hospital Crown Foundation  
Lakehead University Foundation  
Laurentian University of Sudbury Foundation  
McMaster University Foundation  
McMichael Canadian Art Collection  
Metropolitan Toronto Convention Centre Corporation

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Moosonee Development Area Board  
Mount Sinai Hospital Crown Foundation  
National Ballet of Canada Crown Foundation  
Nipissing University Foundation  
North York General Hospital Crown Foundation  
Ontario Casino Corporation  
Ontario Centre for Resource Machinery Technology  
Ontario Foundation for the Arts  
Ontario Investment Service Inc.  
Ontario Hydro  
Ontario Mortgage Corporation  
Ontario Municipal Employees Retirement Board  
Ontario Pension Board  
Ontario Trillium Foundation  
Ortech Corporation  
Ottawa Congress Centre  
Province of Ontario Immigrant Investor Infrastructure Fund Ltd.  
Royal Botanical Gardens Crown Foundation  
Royal Ontario Museum  
Royal Ontario Museum Crown Foundation  
Ryerson Polytechnic University Foundation  
Science North  
Shaw Festival Crown Foundation  
St. Michael's Hospital Crown Foundation  
Stadium Corporation of Ontario Limited  
Stratford Festival Crown Foundation  
Sunnybrook Hospital Crown Foundation  
Toronto East General Hospital Crown Foundation  
Toronto Hospital Crown Foundation  
Toronto Islands Residential Community Trust Corporation  
Toronto Symphony Orchestra Crown Foundation  
Travel Industry Compensation Fund Corporation  
Trent University Foundation

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University of Guelph Foundation  
University of Ottawa Foundation  
University of Toronto Foundation  
University of Waterloo Foundation  
University of Western Ontario Foundation  
University of Windsor Foundation  
Waterfront Regeneration Trust Agency  
Wilfrid Laurier University Foundation  
Women's College and Wellesley Central Crown Foundation  
York University Foundation

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NOTES:

Changes during the 1997/98 fiscal year:

*Deletions:*

- Ontario Energy Corporation

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## EXHIBIT FOUR

# Treasury Board Orders

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### AMOUNTS AUTHORIZED AND EXPENDED THEREUNDER YEAR ENDED MARCH 31, 1998

Ministry	Date of Order	Authorized	Expended
		\$	\$
Agriculture, Food and Rural Affairs	Apr. 7, 1998	<u>14,197,000</u>	<u>13,505,405</u>
Attorney General	Oct. 28, 1997	6,707,300	6,707,300
	Dec. 9, 1997	8,765,900	8,765,900
	Feb. 17, 1998	4,940,500	4,940,500
	Mar. 24, 1998	<u>29,659,700</u>	<u>29,213,363</u>
		<u>50,073,400</u>	<u>49,627,063</u>
Cabinet Office	Mar. 24, 1998	<u>1,240,000</u>	<u>1,127,620</u>
Citizenship, Culture and Recreation	Dec. 10, 1997	3,416,500	3,416,500
	Apr. 7, 1998	<u>9,897,900</u>	<u>9,347,380</u>
		<u>13,314,400</u>	<u>12,763,880</u>
Community and Social Services	Mar. 24, 1998	<u>55,115,100</u>	<u>53,073,593</u>
Consumer and Commercial Relations	Jul. 22, 1997	2,886,400	2,876,725
	Mar. 24, 1998	<u>9,767,400</u>	<u>6,876,021</u>
		<u>12,653,800</u>	<u>9,752,746</u>
Economic Development, Trade and Tourism	Apr. 7, 1998	<u>11,997,100</u>	<u>6,967,940</u>
Education and Training	Mar. 12, 1998	176,244,400	162,749,282
	Apr. 7, 1998	<u>5,079,000</u>	—
		<u>181,323,400</u>	<u>162,749,282</u>
Environment and Energy	Feb. 3, 1998	3,450,000	2,610,436
	Feb. 3, 1998	<u>16,568,100</u>	<u>14,900,522</u>
		<u>20,018,100</u>	<u>17,510,958</u>

Ministry	Date of Order	Authorized	Expended
		\$	\$
Finance	Dec. 16, 1997	5,644,700	4,199,183
	Feb. 17, 1998	20,729,400	20,414,072
	Apr. 7, 1998	<u>1,542,000</u>	<u>1,501,992</u>
		27,916,100	26,115,247
Office of Francophone Affairs	Dec. 16, 1997	<u>347,500</u>	<u>302,611</u>
Health	Mar. 3, 1998	96,322,800	96,322,800
	Mar. 12, 1998	89,291,900	77,167,079
	Apr. 7, 1998	<u>313,621,700</u>	<u>301,131,061</u>
		499,236,400	474,620,940
Intergovernmental Affairs	Oct. 28, 1997	<u>1,252,000</u>	<u>928,669</u>
Labour	Feb. 10, 1998	6,500,000	6,500,000
	Feb. 17, 1998	6,447,000	3,994,795
	Apr. 7, 1998	<u>205,300</u>	<u>—</u>
		13,152,300	10,494,795
Management Board Secretariat	Apr. 7, 1998	<u>12,067,400</u>	<u>11,664,385</u>
Municipal Affairs and Housing	May 27, 1997	3,806,400	3,730,022
	Oct. 28, 1997	3,184,800	1,884,800
	Jan. 20, 1998	65,000,000	32,794,156
	Apr. 7, 1998	<u>5,142,000</u>	<u>3,323,739</u>
		77,133,200	41,732,717
Ontario Native Affairs Secretariat	Apr. 7, 1998	<u>497,000</u>	<u>219,122</u>
Natural Resources	Jun. 23, 1997	18,000,000	18,000,000
	Nov. 18, 1997	15,020,900	13,917,455
	Mar. 24, 1998	<u>21,432,300</u>	<u>21,176,276</u>
		54,453,200	53,093,731
Northern Development and Mines	Feb. 3, 1998	900,000	900,000
	Feb. 17, 1998	9,000,000	8,317,088
	Mar. 24, 1998	4,054,900	4,022,560
	Mar. 24, 1998	<u>1,700,000</u>	<u>—</u>
		15,654,900	13,239,648
Solicitor General and Correctional Services	Mar. 24, 1998	68,325,000	66,624,840
	Apr. 21, 1998	<u>1,747,000</u>	<u>1,739,762</u>
		70,072,000	68,364,602

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Ministry	Date of Order	Authorized	Expended
		\$	\$
Transportation	Feb. 17, 1998	14,500,000	14,487,764
	Mar. 24, 1998	33,300,000	33,233,947
	Apr. 21, 1998	<u>5,773,600</u>	<u>5,580,377</u>
		<u>53,573,600</u>	<u>53,302,088</u>
<b>Total Treasury Board Orders</b>		<b><u>1,185,287,900</u></b>	<b><u>1,081,157,042</u></b>



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## EXHIBIT FIVE

# Extracts from the *Audit Act*

## R.S.O. 1990, Chapter A.35

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### Definitions

#### 1. In this Act,

“agency of the Crown” means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

- (a) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,
- (b) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,
- (c) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or
- (d) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor’s report and the working papers used in the preparation of the auditor’s statement are required to be made available to the Auditor under any other Act,

but does not include one that the *Crown Agency Act* states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of the *Crown Agency Act*;

“Auditor” means the Provincial Auditor;

“Crown controlled corporation” means a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council;

“inspection audit” means an examination of accounting records;

“public money” has the same meaning as in the *Financial Administration Act*.

Audit of  
Consolidated  
Revenue Fund

9.—(1) The Auditor shall audit, on behalf of the Assembly and in such manner as the Auditor considers necessary, the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise.

Audit of agencies of the Crown	(2) Where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Auditor shall perform the audit, and, despite any other Act, where the accounts and financial transactions of an agency of the Crown are audited by another auditor, the audit shall be performed under the direction of the Auditor and such other auditor shall report to the Auditor.
Audit of Crown controlled corporations	<p>(3) Where the accounts of a Crown controlled corporation are audited other than by the Auditor, the person or persons performing the audit,</p> <ul style="list-style-type: none"> <li>(a) shall deliver to the Auditor forthwith after completion of the audit a copy of their report of their findings and their recommendations to the management and a copy of the audited financial statements of the corporation;</li> <li>(b) shall make available forthwith to the Auditor, when so requested by the Auditor, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the corporation specified in the request;</li> <li>(c) shall provide forthwith to the Auditor, when so requested by the Auditor, a full explanation of work performed, tests and examinations made and the results obtained, and any other information within the knowledge of such person or persons in respect of the corporation.</li> </ul>
Additional examination and investigation	(4) Where the Auditor is of the opinion that any information, explanation or document that is provided, made available or delivered to him or her by the auditor or auditors referred to in subsection (2) or (3) is insufficient, the Auditor may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as the Auditor considers necessary.
Information and access to records	<b>10.</b> Every ministry of the public service, every agency of the Crown and every Crown controlled corporation shall furnish the Auditor with such information regarding its powers, duties, activities, organization, financial transactions and methods of business as the Auditor from time to time requires, and the Auditor shall be given access to all books, accounts, financial records, reports, files and all other papers, things or property belonging to or in use by the ministry, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the Auditor under this Act.
Annual report	<b>12.—(1)</b> The Auditor shall report annually to the Speaker of the Assembly after each fiscal year is closed and the Public Accounts are laid before the Assembly, but not later than the 31st day of December in each year unless the Public Accounts are not laid before the Assembly by that day, and may make a special report to the Speaker at any time on any matter that in the opinion of the Auditor should not be deferred until the annual report, and the Speaker shall lay each such report before the Assembly forthwith if it is in session or, if not, not later than the tenth day of the next session.
Contents of report	(2) In the annual report in respect of each fiscal year, the Auditor shall report on,

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- (a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;
  - (b) the examination of accounts of receipts and disbursements of public money;
  - (c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;
  - (d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;
  - (e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;
  - (f) such matters as, in the opinion of the Auditor, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matter related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,
    - (i) accounts were not properly kept or public money was not fully accounted for,
    - (ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,
    - (iii) money was expended other than for the purposes for which it was appropriated,
    - (iv) money was expended without due regard to economy and efficiency, or
    - (v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory.

Inspection audit      **13.—(1)** The Auditor may perform an inspection audit in respect of a payment in the form of a grant from the Consolidated Revenue Fund or an agency of the Crown and may require a recipient of such a payment to prepare and to submit to the Auditor a financial statement that sets out the details of the disposition of the payment by the recipient.

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Attendance at  
standing Public  
Accounts  
Committee of the  
Assembly

**16.** At the request of the standing Public Accounts Committee of the Assembly, the Auditor and any member of the Office of the Auditor designated by the Auditor shall attend at the meetings of the committee in order,

- (a) to assist the committee in planning the agenda for review by the committee of the Public Accounts and the annual report of the Auditor; and
- (b) to assist the committee during its review of the Public Accounts and the annual report of the Auditor,

and the Auditor shall examine into and report on any matter referred to him or her in respect of the Public Accounts by a resolution of the committee.

Special  
assignments

**17.** The Auditor shall perform such special assignments as may be required by the Assembly, the standing Public Accounts Committee of the Assembly, by resolution of the committee, or by a minister of the Crown in right of Ontario but such special assignments shall not take precedence over the other duties of the Auditor under this Act and the Auditor may decline an assignment by a minister of the Crown that, in the opinion of the Auditor, might conflict with the other duties of the Auditor.

Audit working  
papers

**19.** Audit working papers of the Office of the Auditor shall not be laid before the Assembly or any committee of the Assembly.

























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